COMPLIANCE WITH THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996: AGENCIES CONTINUE TO STRUGGLE

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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COMPLIANCE WITH THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996: AGENCIES CONTINUE TO STRUGGLE

TUESDAY, JUNE 6, 2000

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2247, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn and Ose.

Staff present: J. Russell George, staff director and chief counsel; Louise DiBenedetto, professional staff member; Bonnie Heald, director of communications; Bryan Sisk, clerk; Elizabeth Seong and Michael Soon, interns; Trey Henderson, minority counsel; and Jean Gosa, minority clerk.

Mr. HORN. A quorum about to be present, the Subcommittee on Government Management, Information, and Technology will come to order.

In 1990, Congress passed the Chief Financial Officers Act. This act established the foundation for a financial management structure in which Federal departments and agencies would be held accountable for providing reliable financial information to Congress and the American taxpayers. The act emphasized the need to improve financial management systems and controls to deter fraud, waste, and the misuse of government resources.

Congress continued to buildupon this foundation with additional financial management legislation, including the Federal Financial Management Improvement Act of 1996. It has been nearly 4 years since this legislation became law. Today, we will discuss the progress Federal agencies have made in complying with the law. We will also discuss the significant challenges that are preventing many agencies from having management systems that provide reliable financial information on a day-to-day basis.

As of today, we know that 20 of the 24 agencies and departments included in the Chief Financial Officers Act do not have financial management systems that comply with the Federal Financial Management Improvement Act. That number might rise to 21 agencies when the Department of State finally issues its 1999 financial audit report, which was due on March 31. That missed deadline is a separate problem, which we will also discuss today. Given the

State Department's failure to issue a timely audit report and its failure to comply with the Financial Management Improvement Act in 1997 and 1998, it would be surprising to find that much had changed in 1999.

During the subcommittee's hearing on the 1999 government-wide audits on March 31, the Comptroller General of the United States, Mr. David Walker, reported that "agency financial systems overall are in poor condition and cannot provide reliable financial information for managing day-to-day government operations and holding managers accountable."

From the Comptroller General of the United States, Mr. Joshua Gotbaum, who is with us today from—he will be with us—from the Office of Management and Budget, reported that the same financial management system challenges that confronted Federal departments and agencies 10 years ago still exist today.

The Federal Financial Management Improvement Act of 1996 required that noncompliant agencies prepare remediation plans to bring their financial management systems into substantial compliance with the act within 3 years.

Yet last October, the General Accounting Office reported that agencies had not submitted timely remediation plans and that most of the plans submitted did not comprehensively address financial management issues. That is simply unacceptable to Congress.

We recognize that Federal departments and agencies face enormous challenges in correcting long-standing financial management systems problems. We also recognize that these challenges could take significant time and resources. However, we want to ensure that the intent of this act is taken seriously and that necessary changes are being made.

I welcome all of you who are our panel today. It is one panel so we can have the discussion among ourselves in all directions.

As you know—most of you have been here before—when we call on you in the order in which you are on the agenda, your full statement is put in the record, and we don't want you to read it to us. We have read it. What we want you to do is look us in the eye and summarize it for us in about 5, 6, 7 minutes.

We are going to—as you know, we give the oath to all of you and the assistants who might advise you during the hearing. So if you will stand and raise your right hand and get your assistants also, the clerk will take their names to see that they have affirmed the oath.

[Witnesses sworn.]

Mr. HORN. We will note the seven witnesses and one helping behind the scenes. So please be seated.

We will now start with Mr. Gotbaum—always good to see you, Josh. You are right on time—the Executive Associate Director with his limousine slowing down there at OMB, Executive Associate Director and Controller, Office of Management and Budget. That must take letterhead going this way to do all that. OK. You are going to give us a good summary and will tell us why the State Department takes so long to get things done.

Mr. GOTBAUM. And others.

Mr. HORN. And others, that is right.

STATEMENT OF JOSHUA GOTBAUM, EXECUTIVE ASSOCIATE DIRECTOR AND CONTROLLER, OFFICE OF MANAGEMENT AND BUDGET

Mr. GOTBAUM. Mr. Chairman, thank you. Since I have submitted a statement for the record, I would like to make four points about the state of Federal financial systems and why I am grateful that this committee has undertaken this hearing.

First, this matters intensely. Financial systems are at the heart of the reason why we are trying to reform financial management in the first place.

Second, this is extremely difficult for the government to do.

Third, we are working on it very seriously. I will talk about how and where we have made progress and how and where we have not.

Fourth, we need and appreciate both the patience and the pressure from Congress.

I think it is important, Mr. Chairman, to put FFMIA and financial systems in the context of Federal management reforms generally. For 10 years Congress has, on a bipartisan basis with the administration, across administrations, been working to improve the way the Federal Government manages itself. This effort started with the CFO Act in 1990; and continued with the Government Performance and Results Act, which I consider to be one of the major government reform actions of the decade; GRMA in 1994 requiring financial statements; Clinger-Cohen, an essential improvement in the way we think about IT systems; and, finally, FFMIA. They have laid down a series of mandates.

In response, we have, I want to be very clear, and I think it is important to say, we have come a very long way. It is also important to recognize we have even further to go. But to tick off briefly where we have come: we now have CFOs, we now have their staffs. We now have financial statements from agencies that we did not have before. We now have financial standards that we didn't have before.

Ten years ago, the government couldn't have turned out an audit according to GAAP because there was no GAAP for it to have. We now have governmentwide financials, a long way from clean, but we have them. Agencies financials are improving. This is most important and this is why this hearing is so important to us: financial management systems such as they were 10 years ago did not keep standard accounts, they couldn't communicate with each other, and they couldn't provide accurate, timely and reliable information.

We now have done part of the job. We have GAAP-recognized standards, thanks to a lot of the folks to my left and the AICPA. We have established requirements for systems. We have revitalized JFMIP. I am very pleased Karen Alderman is here to testify, because JFMIP has been around a long time, Mr. Chairman, but what has happened in the last 2 or 3 years since Karen has taken over has been enormously helpful and important. So OMB has set up a system of testing of commercial systems and laid down a requirement that says that unless a system passes muster, agencies cannot buy it.

So we have come a long way. We have an even longer way to go.

If I may, Mr. Chairman, I want to talk about what I think the real challenge is. We had systems. The Federal Government had dozens of systems, actually hundreds of financial systems. They were systems designed with old technology, they were designed for old purposes, and they were not designed to talk to each other and not designed to work with each other. They were designed for keeping track of cash or keeping track of budget requirements. They had no notions of accrual accounting in them.

So the challenge here is that we need to upgrade, modify or scrap literally hundreds of systems while continuing to do the job of the government; and this is a very difficult, very long-term challenge.

FFMIAs requirements by themselves are really quite simple. They say you have to meet financial management systems requirements, you have got to meet accounting standards, now that we have them, and you have to use the Standard General Ledger. This is something which the agency had determined working with the auditor. Most agencies do not yet meet these tests. They don't meet the tests for reasons that I have discussed in the testimony, but I think two more are worth mentioning.

One is the stove-piping nature of government. These were systems not designed to talk with each other; and the business of getting them to work with each other, is, frankly, difficult. Second, because we have been following the congressional mandate to improve management of Federal systems, we have been raising the bar, over the course of the past decade. We have been setting new, higher standards, and that is what we should do. But we ought to also recognize that has consequences.

I also think it is important to state for the record, Mr. Chairman, that although we are a long way from the promised land, agencies really are working at this and really are making progress. Agencies like VA, Interior, Education, and the Small Business Administration are in the process of figuring out what new systems they will need. GSA, Transportation, AID, HUD and Customs are in the process of installing new systems. And even by the tests of FFMIA, agencies like Justice, Labor and NASA meet the Standard General Ledger requirement. They don't meet the other two requirements. Commerce meets the standards requirements, and OPM and SSA report they meet the systems requirements. So agencies are making progress. We think this is a very hard job, but it is one that is ultimately implementable.

Since there has been an ongoing dialog between OMB and this committee over what is OMB doing in this process, I would like to talk about what we do.

As you know, OMB is always, on the management side, doing a combination of threatening, cajoling, advising and laying down the law. In this area, we issued guidance shortly after FFMIA was passed in 1996 to help agencies and auditors.

One of the things we learned over the last several years is that agencies and their auditors implement FFMIA in a variety of ways, so we are now in the process of revising our guidance to try to achieve greater consistency and try to focus on the real nub of FFMIA, which is to provide timely and reliable financial information. We are also working with JFMIP to issue a guide to help folks do this.

Second, and I am going to defer to Karen Alderman, whose folks have done a really terrific job in this area, we have put in place a set of systems standards, standards on core financial systems and on other systems. These standards are not yet complete. We are now expanding this to property, grants and benefits.

Third, and this is the informal part of OMB, there is a process of consultation and support. We meet with agencies, we talk about their remediation plans, we talk about what they need. We work with the CFO Council and essentially try to do that special combination of pushing, cajoling and private criticism and public praise that OMB does.

The last point, which I think is really quite important, is we work to bring this into the budget process, because one of the issues that comes to us when we talk to agencies about systems modernization is money. So what we have said formally and officially is we will support systems improvements in the budget process if they comply with Clinger-Cohen, they have the support of the agency head, there is a plan and an architecture, and it fits into FFMIA.

When we do that, we do that both on the budget side and on the management side.

Mr. HORN. Thank you. That has been very helpful.

[The prepared statement of Mr. Gotbaum follows:]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

Statement of Joshua Gotbaum
Executive Associate Director and Controller
Office of Management and Budget

Before the

Subcommittee on Government Management, Information, and Technology
Committee on Government Reform
US House of Representatives

June 6, 2000

Good morning, Mr. Chairman and Members of the Subcommittee. I appreciate the opportunity to appear before you today to discuss the Federal Government's progress and challenges in improving financial systems and complying with the Federal Financial Management Improvement Act of 1996 (FFMIA).

FFMIA in the Context of Federal Management Reform

It is useful first to place FFMIA in the context of Federal management reforms of the past decade. Ten years ago, Congress on a bipartisan basis recognized that the Federal Government lagged far behind private businesses and state and local governments in financial management and systems. To address these deficiencies, and improve Federal management generally, the Congress enacted a series of bills:

- The Chief Financial Officers (CFO) Act in 1990 established agency CFOs, as well as the Deputy Director for Management, Controller and Office of Federal Financial Management at OMB;
- The Government Performance and Results Act in 1993, which by requiring the development of performance information makes possible the integration of performance and cost information that is essential to management;
- The Government Management Reform Act in 1994 required annual audited agency financial statements, beginning in 1997;
- The Clinger-Cohen Act requires Federal agencies to link IT investments to agency accomplishments; and
- the FFMIA, which in 1996 established requirements for Federal financial management systems.

We have come a long way since 1990. Consider where we were then and where we are now:

- Ten years ago, although agencies kept track of budget outlays, almost no agencies prepared and issued audited financial statements. Now, the 24 CFO Act agencies routinely issue statements; last year 14 achieved "clean opinions".

- The Federal Government as a whole could not produce consolidated financial statements, let alone audited statements. In March, the Government issued its third Government-wide financial statement.

- Even had the Government tried to do so, in 1990 the Government did not even have a set of accepted Government-wide financial accounting standards. The creation of the Federal Accounting Standards Advisory Board (FASAB) in 1990 paved the way for the development and issuance of a complete set of basic accounting standards and concepts by 1996. In October 1999, as validation of our process and progress, the American Institute of Certified Public Accountants (AICPA) recognized FASAB standards as "generally accepted accounting principles" (GAAP).

- Financial management systems, such as they were, did not keep standard accounts, could not communicate with each other, and could not provide accurate, timely, and meaningful information. Now we have GAAP-recognized standards. We have developed requirements for these systems. Equally important, we established a program of comprehensive testing of commercial systems to ensure that they are usable and meet government requirements. Only those systems certified as compliant may be purchased by Government agencies.

Our challenge now is to take the current cash- and budget-based systems and build systems that also generate accrual-based financial information under GAAP, to have financial data available on a timely, consistent basis. This is, as we all recognize, a major long-term challenge.

What Is FFMIA?

The overriding goal of FFMIA is to ensure that financial systems enable agencies to produce timely and reliable financial information – to assist in management of programs, in execution of the budget and development of financial statements in accordance with GAAP. FFMIA's requirements are well intended and deceptively simple -- agencies must implement and maintain financial management systems that comply substantially with:

- Federal ***financial management systems requirements***;

- Federal ***accounting standards***; and

- the U.S. Government ***Standard General Ledger*** at the transaction level.

Determining FFMIA compliance is the responsibility of the head of the agency, who makes that determination based upon work of the agency's auditor and any other information the agency head considers relevant and appropriate. If the agency head determines that systems are not FFMIA compliant, the agency must develop a remediation plan to achieve compliance within 3 years.

Agencies have already been working to modernize their financial systems, but FFMIA adds the force of law to their efforts.

The Challenge of Improving Financial Systems

It is a tremendous challenge to improve financial systems to produce accurate, reliable, consistent, and timely information for program and financial managers. It must be achieved with an instrastructure dominated by legacy systems that were not designed to support current requirements or technology and in an era where budget resources are limited.

The Federal financial systems environment includes over 700 financial systems among the 24 CFO Act agencies, most of which are custom designed for a particular agency or bureau. These systems cost approximately $2 billion annually to maintain and operate, and almost 80 percent of the systems have plans to be or are currently being upgraded or replaced.

These systems originally were built to keep track of cash outlays under budget appropriations law, not accrual-based financial accounting or GPRA. These systems track expenditures very carefully, but they were never designed to develop the financial information needed to produce GAAP statements. Now, for the first time, we are asking these systems to do both.

Our history of separate, decentralized development of systems makes this even harder. Large agencies with multiple bureaus typically operate systems that are not integrated. They cannot share information automatically, even within the agency. Today, for example, you will hear testimony from the Department of Education, which operates 175 programs under 200 different appropriations. Every large agency -- Defense, HHS, Interior, Justice, Treasury and all the others -- faces daunting structural obstacles to developing integrated financial systems. It is not a surprise, therefore, that the few agencies that are already FFMIA compliant -- the National Science Foundation, the National Aeronautics and Space Administration, and the Department of Energy -- are relatively small and less organizationally complex.

We are also, as some agencies have noted, "raising the bar" because we are continuing to refine and develop both accounting and systems standards.

Nonetheless, agencies are responding. Agency after agency has decided to undertake either a systems modernization or installation of an entirely new enterprise or financial management system. GSA, DOT, and Customs, for example, are in the process of installing new systems for their agencies; generally they must phase them in over several years. VA, Education and Interior, among many others, are in process of considering, designing or bidding out new core and related financial systems.

As we all acknowledge, only 3 of 24 CFO Act agencies have achieved the goal of a reliable integrated financial system that meets the FFMIA tests. Nonetheless, agencies are working and making progress. For example, systems at the Departments of Justice, although not FFMIA-compliant, now meet the standard general ledger requirement. Similarly, the Department of Commerce now uses GAAP accounting standards. There are many other such cases.

Furthermore, even for an agency that complies with FFMIA, the challenge of modernizing systems remains substantial. As my colleague from NASA will describe, despite top management commitment and "the right stuff," his FFMIA-compliant agency is still devoting very substantial resources to develop and install an integrated financial system. Like other agencies, NASA has had to deal with legacy systems that are decentralized, non-integrated and non-standard. On occasion, they have had to start afresh, and the overall effort will take years to complete.

This Committee is well-acquainted with Y2K, and so it's worth noting that the challenge we're describing here is considerably more complex. With Y2K, we had a relatively simple coding issue -- two digits where we needed four -- which affected virtually all systems worldwide. We faced a looming and certain deadline, with potentially catastrophic results if we failed. FFMIA, on the other hand, attempts to address multiple problems affecting multiple systems. It is a harder and longer-term challenge.

We should recognize that the Federal Government is not unique in this regard. Other governments and many businesses are finding out that the road to systems modernization is neither short nor smooth. For example, the Canadian Government, which with its 250,000 employees and $119 billion budget is smaller than some of our Cabinet agencies, began developing a government-wide financial information strategy in 1991 and -- 7 years later -- finally began implementation of a COTS-based integrated financial-material management system.

What OMB Is Doing

As with other management process, OMB employs a combination of oversight, consultation, and guidance. OMB is approaching this issue on four fronts:

- ***Guidance.*** Shortly after FFMIA was enacted in 1996, OMB issued guidance to assist agencies and auditors in implementing the requirements of the Act. As we gained experience under the law, we found substantial differences in the ways that agencies and their auditors interpreted the Act and our guidance. As a result, we are now revising and updating our guidance, to reflect "lessons learned" and to promote consistent application of the guidance across agencies. We will work with the audit and CFO communities to ensure that our guidance enables agencies and their auditors to assess compliance consistently and focuses attention on the ultimate goal of the legislation: ensuring that agency financial systems provide timely and reliable financial information. We are also developing within JFMIP a guide for agencies and auditors to help them in their reviews.

- ***Standards.*** Through the revived Joint Financial Management Improvement Program, we have published systems requirements and established a program of comprehensive testing of commercial systems to ensure that they are usable, and that they meet government requirements. Only those systems certified as compliant may be purchased by Government agencies. We also are extending certification and testing processes to other areas beyond core financial management systems, such as property, grants and benefits.

- ***Support.*** OMB is meeting with agencies to discuss their remediation plans. We are also evaluating agencies' system plans and resource needs through the annual budget development process. We are also developing tracking mechanisms that more accurately depict the Federal Government's progress by monitoring and reporting on incremental improvements at agencies as they move towards FFMIA compliance.

- ***Integration.*** In the budget process, OMB supports financial management improvement initiatives if and when they are endorsed by agency management, integrated with agency IT and other business plans, and part of the overall agency financial management strategy leading to compliance with FFMIA. We require that agencies will include adequate capital asset plans and resource justifications. Both OFFM, OIRA and the RMO's participate in these reviews. We are working to integrate currently standalone processes (IT System Planning, Capital Asset Planning, Financial Management Systems Planning). Furthermore, these processes are tracked, coordinated and sustained through oversight resulting from the Priority Management Objective process.

Conclusion

Mr. Chairman, we appreciate the attention you and Members of your Subcommittee have devoted to help improve Federal financial management. This is not a glamorous, exciting topic, yet the need for integrated, reliable financial systems that generate timely relevant information -- whether to inform decision makers or demonstrate full accountability -- is a key component of better government. We have made progress toward this end, but there is much yet to do. OMB will continue to focus its efforts on assisting agencies in taking their current budget-based systems and building systems that generate both budget-based and accrual-based financial information in accordance with GAAP on a timely, consistent basis.

We appreciate both the Congress's recognition that this effort takes years and its continuing pressure for us to make progress. We hope to continue that fruitful dialogue in the years to come.

Mr. Chairman, this concludes my formal statement. I would be pleased to answer any questions.

Mr. HORN. Let us move now to the General Accounting Office, Jeffrey Steinhoff, the Assistant Comptroller General for Accounting and Information Management Programs, U.S. General Accounting Office.

STATEMENT OF JEFFREY C. STEINHOFF, ASSISTANT COMPTROLLER GENERAL, ACCOUNTING AND INFORMATION MANAGEMENT PROGRAMS, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY GLORIA L. JARMON, DIRECTOR OF HEALTH, EDUCATION AND HUMAN SERVICES, ACCOUNTING AND FINANCIAL MANAGEMENT ISSUES

Mr. STEINHOFF. Mr. Chairman, Mr. Ose, it is a pleasure to be here today to discuss the state of financial management systems. The bottom line, across the Federal Government efforts are under way to overhaul financial systems; and good progress is being made. At the same time, there is a long way to go, as major challenges remain.

From the outset today, I want to dispel any notion that this is merely a compliance issue. The expectations of the CFO Act and FFMIA are integral to producing the relevant reliable and timely information needed to efficiently and effectively manage government operations day-to-day and to provide accountability. When Federal agencies can meet these expectations, they will have achieved what the Comptroller General has referred to as the end game.

FFMIA bolstered the mandate of the CFO Act by focusing on the systems themselves, which is at the heart of what is wrong today. While clean audit opinions are an important measure of accountability, the end game is having systems in place that routinely provide needed financial information. Our study of world-class finance organizations—Boeing, Chase Manhattan, G.E., Hewlett Packard, Owens-Corning and Pfizer, and the States of Texas, Massachusetts and Virginia—found that they redefined the role of finance with a goal of adding value and providing meaningful information to decisionmakers while reducing routine backroom accounting costs.

I want to read to you a message from the CFO at the Department of Energy. This is an agency that got a clean opinion, and this is an agency that also passed the FFMIA test. So energy is at that leading edge of doing well. This really captures the nexus of the challenge.

This is from Michael Telson, the Energy CFO, "the Department's financial management system needs to be upgraded to produce financial information faster and in an easily accessible manner to meet the changing needs of our program managers."

That is what agencies really face today. Similar to results for fiscal year 1998, for fiscal year 1999, only three agencies were found to be compliant with FFMIA. I applaud them. My colleagues from NASA here today have worked real hard, as have the National Science Foundation and Energy.

A number of agencies that attained clean audit opinions for fiscal year 1999 did so through heroic efforts that were outside the financial system, such as using statistical sampling to derive year-end balances. For example, the DOT IG reported, that manual and labor intensive efforts that DOT employed to attain its first clean audit opinion are expensive, prone to errors, and cannot be sustained. DOT worked very hard at this, I commend them for their result, but they had to hire additional contractors, they detailed employees, they paid overtime and compensatory time, and they had adjusting entries of $36 billion to get there.

It is an important achievement, I applaud them, but, long-term, they do not want to be spending their time and money on what I call cleaning up a backroom operation. They want to have this information readily come from their systems.

As shown on the chart I brought today, over at your right, the IGs cited five basic reasons for noncompliance.

First, non-integrated systems. I think this is the most problematic to achieving the end game. It was cited by 14 IGs; and for agencies such as DOD and IRS, it will take years and years of hard work to overcome this problem alone. It is a very complex issue.

Second, inadequate reconciliation procedures were cited by 14. In part, that is caused by having non-integrated systems; and, therefore, you have got to reconcile data.

Third, systems that do not implement the Standard General Ledger, meaning it is very difficult to pull the consolidated statements together, and we don't have the kind of consistency envisioned.

Mr. HORN. Excuse me, just for the record, because nobody will know what SGL is——

Mr. STEINHOFF. Standard General Ledger.

Mr. HORN. Those in education, which your colleague is, you would think of student government loans.

Mr. STEINHOFF. I am sorry.

Mr. HORN. That is why I am a nut on not having SGLs.

Mr. STEINHOFF. I have been an accountant too long.

Fourth, a lack of adherence to accounting standards, including cost accounting. That was cited 15 times. Cost accounting is really at the heart of being able to implement GPRA in an effective manner.

Finally, weak computer security, the reason cited most often, with 19 IGs reporting this issue.

There are lots of efforts under way to upgrade financial systems, from reengineering basic processes to major redesigns of systems to the work of the JFMIP, which you will hear about today. These efforts must be sustained and will have to transcend this administration to remedy the underlying issues.

We may be back in a few years to report that substantially more, perhaps all, of the 24 CFO Act agencies, have received a clean audit opinion. However, I feel much less confident in the short term that their systems will be in compliance with FFMIA and will meet the intended results of the CFO Act.

Overhauling financial systems, as Mr. Gotbaum said, is much more difficult than devising and mastering a repeatable process for deriving year end numbers. This is heavy lifting, a tough job. Similar to my recent testimony before this subcommittee on DOD financial management, the successful Y2K experience shows that difficult challenges can be overcome. Government can get the job done through a disciplined process, in this case strict adherence to the Clinger-Cohen Act. There are no shortcuts, no free lunch. The past is littered with system failures, and Clinger-Cohen must be followed.

Next, there must be top-level leadership, the tone and level of engagement at the top is critical to success. I think any agency that has had success will say that. In our work, looking at world-class finance organizations, that is what we found.

Finally, through a continuing strong congressional leadership and oversight, such as the work of this subcommittee. Only in this way will the Federal Government achieve the end game of the CFO Act.

Mr. Chairman, this concludes my summary remarks. I would be pleased to answer any questions later that you or Mr. Ose might have.

Mr. HORN. And I am assuming Ms. Jarmon will be backup for you, because she is a very good witness. We have had her here before. We are glad to see you again.

[The prepared statement of Mr. Steinhoff follows:]

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Government Management, Information and Technology
Committee on Government Reform
House of Representatives

**For Release on Delivery
Expected at 10:00 am,
Tuesday, June 6, 2000**

FINANCIAL MANAGEMENT

Agencies Face Many Challenges in Meeting the Goals of the Federal Financial Management Improvement Act

Statement of Jeffrey C. Steinhoff, Assistant Comptroller General
Accounting and Information Management Division

G A O
Accountability * Integrity * Reliability

GAO/T-AIMD-00-178

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the challenges most of the major federal departments and agencies face in meeting the basic expectations laid out in the Federal Financial Management Improvement Act of 1996 (FFMIA). That act, and several before it dating back to 1982, most notably the Chief Financial Officers (CFO) Act of 1990, have underscored the importance of improving financial management across the federal government. As such, FFMIA and predecessor legislation, as well as many audit reports by our office and the Inspector General (IG) community have continually pointed out that reliable, useful, and timely information has not been available across government to ensure financial accountability and to help improve economy, efficiency, and effectiveness. The central challenge in generating reliable and timely data throughout the year is overhauling financial and related management information systems. To help focus attention on this challenge, 4 years ago the Congress passed FFMIA, which requires the 24 major departments and agencies[1] to implement and maintain financial management systems that comply substantially with (1) federal financial systems requirements, (2) applicable federal accounting standards, and (3) the *U.S. Government Standard General Ledger* (SGL) at the transaction level.

Today I will discuss (1) problems with agencies' systems that prevent them from meeting the expectations of FFMIA, (2) how agencies are able to receive a "clean" (unqualified) audit opinion on their financial statements even though their financial systems do not comply with FFMIA's requirements, and (3) key elements in addressing these systems problems, including the importance of sound information technology investment and control processes. As required by the act, we plan to issue our fourth annual report on agency compliance with FFMIA by October 1 of this year.

Mr. Chairman, from the outset today, I want to dispel the notion that this is merely a compliance issue. The expectations in the CFO Act and FFMIA are integral to producing the data needed to efficiently and effectively manage the day-to-day operations of the federal government and provide accountability to the taxpayers. When federal agencies can meet these expectations, they will have achieved what the Comptroller General has referred to as the "end game"—systems and processes that routinely generate reliable, useful, and timely information the government needs to assure accountability to taxpayers, manage for results, and help decisionmakers make timely, well-informed judgments.

Aside from poor data and weak assurances regarding accountability, the issues I will discuss today can result in excessive time spent by staff in trying to correct data problems and compensate for systems shortcomings. We recently issued an *Executive Guide: Creating Value Through World-class Financial Management*,[2] which describes some of the best practices used by effective finance operations to support the mission objectives of their organizations. They devote an increasingly smaller portion of their staff resources to routine accounting activities, such as external reporting and, instead, are able to use reliable and timely financial and other data to provide products and services that directly support strategic decision-making and ultimately improve overall business performance.

[1]The 24 Chief Financial Officers (CFO) Act agencies are listed in table 1.
[2]*Executive Guide: Creating Value Through World-class Financial Management* (GAO/AIMD-00-134, April 2000).

FFMIA IS A KEY COMPONENT OF THE MANAGEMENT REFORM FRAMEWORK

FFMIA is part of a series of management reform legislation passed by the Congress over the past 2 decades. This series of legislation started with the Federal Managers' Financial Integrity Act of 1982, which the Congress passed to strengthen internal control and accounting systems throughout the federal government, among other purposes. However, as we reported in 1989,[3] 7 years after the Financial Integrity Act was passed, agencies had achieved some success in identifying and correcting material internal control and accounting system weaknesses, but their efforts to implement the Financial Integrity Act had not produced the results intended by the Congress. At that time, we also reported that the government did not have the internal control systems necessary to effectively operate its programs and safeguard its assets and that its accounting systems were antiquated and second-rate.

So, in the 1990s, the Congress passed additional management reform legislation to improve the general and financial management of the federal government. The combination of reforms ushered in by (1) the Chief Financial Officers Act of 1990, (2) the Government Management and Reform Act of 1994, (3) FFMIA, (4) the Government Performance and Results Act of 1993, and (5) the Clinger-Cohen Act of 1996, if successfully implemented, provides a basis for improving accountability over government operations and routinely producing sound cost and operating performance information, thereby making it possible to better assess and improve the government's financial condition and operating performance. In addition, we recently updated our *Standards for Internal Control in the Federal Government*,[4] which is issued pursuant to the Financial Integrity Act to help agency managers implement effective internal control, an integral part of improving financial management systems.

FFMIA requires auditors performing annual financial statement audits of the CFO Act agencies to report whether agencies' financial management systems comply with the act's requirements. The act defines financial management systems as the financial systems and financial portions of mixed systems[5] necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions. FFMIA also requires agency heads to determine annually, based on the audit report on the entity's financial statements and any other relevant information, whether their agency financial management systems satisfy the act's requirements. If the agency head determines that the systems do not comply, FFMIA requires the agency head, in consultation with the Director of the Office of Management and Budget (OMB), to establish a remediation plan to bring the systems into substantial compliance. FFMIA also contains a requirement that IGs are to report instances and reasons when an agency has not met the intermediate target dates established in their remediation plans.

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[3]*Financial Integrity Act: Inadequate Controls Result in Ineffective Federal Programs and Billions in Losses* (GAO/AFMD-90-10, November 28, 1989).

[4]*Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999).

[5]FFMIA defines mixed systems as information systems that support both financial and nonfinancial functions of the federal government or components thereof.

To develop this testimony, we reviewed fiscal year 1999 audit results for the 23 CFO Act agencies that had issued audited financial statements as of June 1, 2000.[6] We also relied on our ongoing work on FFMIA, including reviews of agency remediation plans, federal accounting standards, and federal financial systems requirements. We did our work from February through May 2000, in accordance with generally accepted government auditing standards.

WIDESPREAD NONCOMPLIANCE INDICATES SERIOUS SYSTEMS PROBLEMS

Auditors for 20 of the 23 CFO Act agencies, whose audit reports have been issued, reported that for fiscal year 1999, the agencies' systems did not comply substantially with federal financial systems requirements, federal accounting standards, and/or the SGL.[7] Auditors for three agencies—the Department of Energy, the National Aeronautics and Space Administration, and the National Science Foundation—reported the agencies' systems to be in substantial compliance. These results were similar to those for fiscal years 1997 and 1998. Reasons for noncompliance range from nonintegrated financial management systems to information security weaknesses. This continuing widespread noncompliance with FFMIA is indicative of the overall long-standing poor condition of agency financial systems. Correcting the systems problems that cause noncompliance with FFMIA is a challenge for many agencies because of the age and poor condition of their critical financial systems. Some of the federal government's computer systems were originally designed and developed years ago and do not meet current systems requirements and cannot provide reliable financial information for managing day-to-day government operations and holding managers accountable. Further, the inadequacy of federal financial management systems prevents a host of financial reporting and financial analysis needs from being met.

Based on our review of fiscal year 1999 audit reports for the 20 agencies reported to be noncompliant, we identified five primary reasons:

- nonintegrated financial management systems,
- inadequate reconciliation procedures,
- noncompliance with the SGL,
- lack of adherence to federal accounting standards, and
- weak security over information systems.

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[6]The statutory reporting deadline for audit reports discussing the results of the fiscal year 1999 financial statement audits for the CFO agencies was March 1, 2000. As of June 1, 2000, the Department of State had not yet issued its fiscal year 1999 audited financial statements.

[7]Management of 3 of the 20 agencies—the Federal Emergency Management Agency, the Social Security Administration, and the Office of Personnel Management (OPM)—determined that their agencies' systems did comply substantially with FFMIA's requirements. Management of these three agencies acknowledged that the weaknesses identified by the auditors exist, but did not agree that the weaknesses caused "substantial noncompliance." (In the case of OPM, management determined that the systems for the Retirement, Health Benefits Insurance, and Life Insurance programs did comply substantially with FFMIA. For the Revolving Fund and Salaries and Expenses, OPM management agreed with its auditors that the systems did not comply substantially with FFMIA.)

Table 1 shows the 20 noncompliant agencies and problems reported by their auditors.

Table 1: Problems Reported by Auditors in Fiscal Year 1999

Agency	Nonintegrated financial management systems	Inadequate reconciliation procedures	Non-compliance with the SGL	Lack of adherence to federal accounting standards	Weak security over information systems
Department of Agriculture	√	√	√	√	√
Department of Commerce	√	√	√		√
Department of Defense	√	√	√	√	√
Department of Education	√	√		√	√
Department of Health and Human Services	√	√			√
Department of Housing and Urban Development	√	√	√	√	√
Department of the Interior				√	√
Department of Justice	√	√		√	√
Department of Labor	√	√	√	√	√
Department of Transportation	√		√	√	√
Department of the Treasury	√	√	√	√	√
Department of Veterans Affairs	√	√	√	√	√
Agency for International Development	√	√	√	√	√
Environmental Protection Agency		√		√	√
Federal Emergency Management Agency	√	√			√
General Services Administration					√
Nuclear Regulatory Commission				√	
Office of Personnel Management		√	√	√	√
Small Business Administration	√		√	√	√
Social Security Administration					√
Totals	14	14	11	15	19

Source: GAO analysis of agency audit reports for fiscal year 1999.

To understand how these weaknesses affect agencies' financial management efforts and to bring about any lasting improvements, it is important to understand what these weaknesses mean and their impact on the government's operations. The following sections describe the five types of weaknesses and provide examples identified by the agencies' auditors.

Nonintegrated Financial Management Systems

One of the federal financial systems requirements is that agencies' financial management systems must be integrated.[8] According to the CFO Act, agencies are to develop and maintain an integrated accounting and financial management system that complies with federal systems requirements and provides for (1) complete, reliable, consistent, and timely information that is responsive to the financial information needs of the agency and facilitates the systematic measurement of performance, (2) the development and reporting of cost information, and (3) the integration of accounting, budgeting, and program information. In this regard, OMB Circular A-127, *Financial Management Systems*, requires agencies to establish and maintain an integrated financial management system that conforms with the Joint Financial Management Improvement Program's (JFMIP)[9] functional requirements.

When agencies do not have an integrated financial management system—which includes a budget system and program systems that maintain financial information, such as logistics, personnel, and acquisition systems—they are often forced to rely on ad hoc programming or analysis or actions, such as taking physical inventories to determine what assets they have on hand, in order to satisfy financial reporting and analysis responsibilities. In these situations, agencies must expend major effort and resources, and some agencies rely heavily on external consultants to develop information that their systems should be able to provide on a daily or recurring basis. In addition, opportunities for errors are significantly increased when agencies' systems are not integrated.

Modern, integrated financial systems rely on transaction-based entries to update all relevant accounts, be they for budgetary control, proprietary accounting objectives, or program management. In these modern, integrated systems, financial data is carried in a common format, and the effects of financial transactions in one application are accurately transmitted to other affected applications. Accordingly, aside from the timeliness in recording transactions, the use of integrated systems largely negates the risk of out-of-balance situations and data entry errors. Thus, agencies can have at their disposal information that can quickly provide year-to-date balances, but more importantly, can be used for analysis throughout the year.

A continuing, serious problem is that agencies lack modern, integrated financial management systems. As shown in table 1, auditors for 14 of the 20 noncompliant agencies reported this as a problem. For example, as we testified before this Subcommittee this February,[10] the Internal

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[8]Federal financial system requirements define an integrated financial system as one that coordinates a number of previously unconnected functions to improve overall efficiency and control. Characteristics of such a system include (1) standard data classifications for recording financial events, (2) common processes for processing similar transactions, (3) consistent internal controls over data entry, transaction processing, and reporting, and (4) a system design that eliminates unnecessary duplication of transaction entry.

[9]JFMIP is a cooperative undertaking of OMB, the Department of the Treasury, the Office of Personnel Management (OPM), and GAO working with operating agencies to improve financial management practices throughout the government. The program was initiated in 1948 by the Secretary of the Treasury, the Director of the Bureau of the Budget (now OMB), and the Comptroller General and was given statutory authorization in the Budget and Accounting Procedures Act of 1950. The Civil Service Commission, now OPM, joined JFMIP in 1966.

[10]*Internal Revenue Service: Results of Fiscal Year 1999 Financial Statement Audit* (GAO/T-AIMD-00-104, February 29, 2000).

Revenue Service (IRS) had to focus substantial efforts on developing compensating processes to work around its serious systems and internal control weaknesses to derive year-end balances for its financial statements.[11] Because IRS' aging financial management systems have not been redesigned to meet current systems requirements and financial reporting standards, IRS' approach to preparing financial statements relied heavily on costly, time-consuming processes, statistical projections, and external consultants to derive year-end balances. For instance, IRS has pervasive problems in managing and reporting unpaid assessments.[12] IRS does not have a subsidiary ledger that tracks and accumulates unpaid assessments and their status on an ongoing basis. The absence of the subsidiary ledger adversely affects IRS' ability to effectively manage and accurately report these assessments. Typically, an entity's accounts receivable balances would be supported by detailed records, listings, or a subsidiary ledger of individual amounts, which are all part of an integrated financial management system. To compensate for the lack of an unpaid assessment subsidiary ledger, IRS uses ad hoc programs that extract data from the tax master files—its database of taxpayer information. However, as in past years, the results still required significant adjustments totaling tens of billions of dollars before taxes receivable can be reliably reported on the balance sheet. IRS top management recognizes this and has demonstrated a strong commitment to developing an integrated system as part of tax systems modernization.

As we testified before this Subcommittee last month,[13] the Department of Defense (DOD) lacks integrated accounting systems. DOD relies on an inventory of 168 systems—consisting of 98 finance and accounting systems and 70 critical feeder systems—to carry out its financial management responsibilities. These critical feeder systems provide about 80 percent of the data needed for sound financial management. Because DOD lacks the integrated systems needed to properly control assets and accumulate costs, millions of transactions are keyed and then re-keyed into a vast number of systems. To illustrate the degree of difficulty faced by DOD, figure 1, which we included in our earlier testimony, shows for one business area—contract and vendor payments—the number of systems involved and their relationships to one another.

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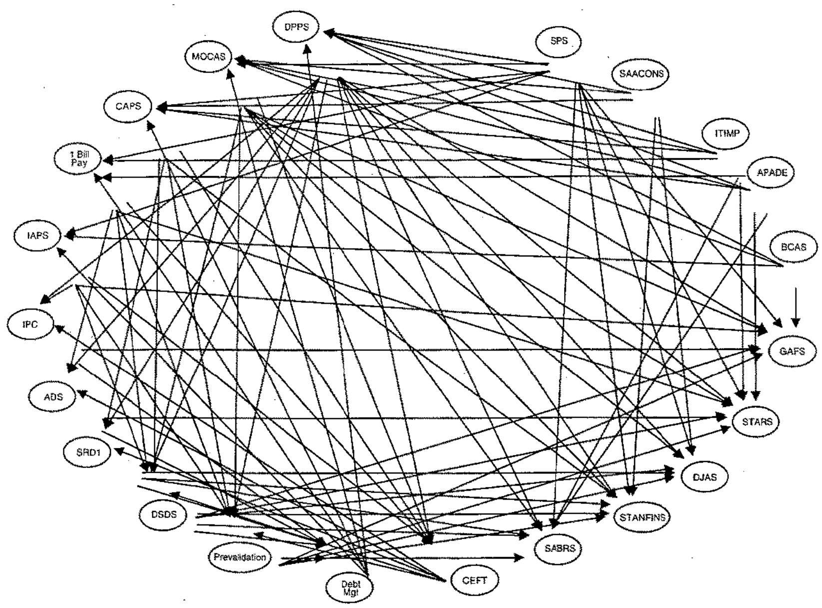
[11]The Department of the Treasury is one of the 20 noncompliant agencies. IRS' systems problems were one of the main reasons for Treasury's noncompliance with FFMIA.
[12]Unpaid assessments consist of amounts for which (1) IRS can support the existence of a receivable through taxpayer agreement or a favorable court ruling (federal taxes receivable), (2) neither the taxpayer nor the court has affirmed that the amounts are owed (compliance assessments), and (3) IRS does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency (write-offs).
[13]*Department of Defense: Progress in Financial Management Reform* (GAO/T-AIMD/NSIAD-00-163, May 9, 2000).

Figure 1: DOD's Current Systems Environment for the Contract and Vendor Payment Process



Source: Department of Defense

In addition to the 22 financial systems involved in the contract payment process that are shown in figure 1, DOD has identified many other critical acquisition systems used in the contract payment process that are not shown on this diagram. To further complicate the processing of these transactions, each transaction must be recorded using a nonstandard, complex line of accounting that accumulates appropriation, budget, and management information for contract payments. For example, the following line of accounting is used for the Army's Operations and Maintenance appropriation.

2162020573106325796.BD26FBQSUPCA200GRE12340109003AB22WORNAAS34030

As we previously testified, because DOD's financial management systems are not integrated and payment and accounting processes are complex and generally involve separate functions carried out by separate offices using different systems, each line of accounting must be manually entered multiple times, compounding the likelihood of data entry errors. Billions of dollars of adjustments are made to correct transactions processed for functions such as inventory and contract payments. During fiscal year 1999, almost one of every three dollars in contract payment transactions was made to adjust a previously recorded transaction. In addition, DOD's IG found that $7.6 trillion of adjustments to DOD's accounting transactions were required last year to prepare DOD's financial statements. As with IRS, DOD's top management recognizes the severity of the problems and has several actions planned and underway to address these problems.

Inadequate Reconciliation Procedures

A reconciliation process, even if performed manually, is a valuable part of a sound financial management system. In fact, the less integrated financial management systems are, the greater the need for adequate reconciliations because data for the same transaction may be separately entered in multiple systems. Reconciliation of records from the multiple systems would ensure that transaction data was entered correctly in each one. Reconciliation is also an important control for establishing agreement between two sets of independently maintained but related records because it helps to ensure the integrity of the underlying accounting data supporting the financial statements. For example, in a private company, the ledger account for Cash in Bank is reconciled with the bank statement received from the bank, and the home office record of shipments to a branch office is reconciled with the record of receipts maintained by the branch. Our recently updated *Standards for Internal Control in the Federal Government* highlight reconciliation as a key control activity.

As shown in table 1, auditors for 14 of the 20 noncompliant agencies reported that the agencies had reconciliation problems, including difficulty reconciling their Fund Balance with Treasury accounts (that is, their cash accounts) with the Department of the Treasury's records. Treasury policy requires agencies to reconcile their accounting records with Treasury records monthly, which is comparable to individuals reconciling their checkbooks to their monthly bank statements.

For example, the Department of Education's auditors reported[14] that Education did not perform proper or timely reconciliations of its financial accounting records throughout fiscal year 1999. And, at fiscal year-end, the balance in Education's Fund Balance with Treasury account varied considerably from the related balance reported by Treasury. In order to make the account balances agree, Education made an unsupported adjustment of a net amount of about $244 million to its Fund Balance with Treasury account. This means that Education simply changed its records to agree with Treasury balances without determining the causes of the differences and without modifying the underlying transactions or accounts giving rise to the discrepancies. Because Education had not been performing periodic reconciliations and discerning reasons for differences on an ongoing basis, it could not determine which records, if any, were correct and accordingly, relied on Treasury's records, not its own.

[14] *The U.S. Department of Education, Audited Financial Statements, Year Ended September 30, 1999, Report of Independent Auditors*, Ernst & Young LLP, February 2, 2000. Also see *Financial Management: Financial Management Weaknesses at the Department of Education* (GAO/T-AIMD-00-50, December 6, 1999), *Financial Management: Education Faces Challenges in Achieving Financial Management Reform* (GAO/T-AIMD-00-106, March 1, 2000), and *Financial Management: Education's Financial Management Problems Persist* (GAO/T-AIMD-00-180, May 24, 2000).

In another example, the Department of Housing and Urban Development's (HUD) IG reported[15] that HUD fell behind schedule in its reconciliation processes to identify discrepancies with Treasury because of the implementation of a new core accounting system. As a result, HUD made many adjustments to make its Fund Balance with Treasury accounts agree with Treasury records. HUD made 42 adjustments totaling about $17.6 billion to adjust fiscal year 1998 ending balances and 242 adjustments totaling about $59.6 billion to adjust fiscal year 1999 activity. Therefore, on a day-to-day basis, HUD's decisionmakers cannot be assured that the information in its financial systems is reliable. In addition, the reconciliation problems delayed closing of the general ledger and preparation of the financial statements which in turn contributed to the IG's disclaimer of opinion[16] on HUD's fiscal year 1999 financial statements.

Noncompliance With the SGL

Implementation of the SGL at the transaction level is one of the major requirements of FFMIA. However, as shown in table 1, auditors for 11 of the 20 noncompliant agencies reported that the agencies' systems did not comply with SGL requirements. The SGL was established by an interagency task force through the direction of OMB and mandated for use by OMB and Treasury regulations in 1986. The SGL promotes consistency in financial transaction processing and reporting by providing a uniform chart of accounts and pro forma transactions that are to be used to standardize federal agencies' financial information accumulation and processing, enhance financial control, and support budget and external reporting, including financial statement preparation. The SGL is intended to improve data stewardship throughout the government, enabling consistent reporting at all levels within the agencies, and providing comparable data and enabling financial analysis at the governmentwide level. By not implementing the SGL, agencies are challenged to provide consistent financial information across their component entities and functions. The effect of such differences is further compounded at the governmentwide level and contributed to our disclaimer of opinion on the U.S. government's consolidated financial report for fiscal years 1997, 1998, and 1999 because the government could not ensure that that the information in its financial statements was properly and consistently compiled.[17]

A Treasury official stated in testimony before this Subcommittee on March 31,[18] that the federal government needs to increase the use of the SGL in agency accounting systems to improve the reliability and accuracy of financial information. The official continued by stating

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[15] *Report on Efforts to Audit the U.S. Department of Housing and Urban Development's Fiscal Year 1999 Financial Statements* (00-FO-177-0003, March 1, 2000).
[16] A disclaimer of opinion means the auditors are unable to determine the overall fairness of the financial statements. This type of result might occur if the audit revealed the system of internal control to be grossly inadequate or if the auditors for any reason did not or could not perform sufficient work to have a basis for an opinion.
[17] *Financial Audit: 1997 Consolidated Financial Statements of the United States Government* (GAO/AIMD-98-127, March 31, 1998), *Financial Audit: 1998 Financial Report of the United States Government* (GAO/AIMD-99-130), and *Financial Audit: 1999 Financial Report of the United States Government* (GAO/AIMD-00-131, March 31, 2000).
[18] *Are the Financial Records of the Federal Government Reliable?*, Testimony of Donald V. Hammond, Fiscal Assistant Secretary, Department of the Treasury, March 31, 2000.

> Our ability to prepare the consolidated financial report using SGL data so that it is consistent with data in agency statements is hampered by the fact that a large number of agencies do not properly use the SGL. In many instances, agencies cannot adequately produce and send the SGL data to Treasury because their systems do not record accounting events using the SGL at the transaction level as mandated by the FFMIA. This results in additional workload and processes to ensure that amounts are recorded in the proper accounts. Additionally, this frustrates attempts to maximize efficiency through the creation of automated analytical tools.

For example, the Agency for International Development's (AID) IG reported[19] that AID did not record accounts receivable in accordance with the SGL at the transaction level. AID relied on data calls[20] to obtain the total amount of outstanding accounts receivable because it did not have integrated financial management systems. These data calls were posted to the general ledger at the summary level as opposed to the transaction level as required. According to the IG, by using data calls to determine outstanding accounts receivable, AID is at risk that the information obtained is not accurate or complete.

Lack of Adherence to Federal Accounting Standards

One of FFMIA's requirements is that agencies' financial management systems comply with applicable federal accounting standards, which are developed by the Federal Accounting Standards Advisory Board (FASAB).[21] Currently, there are 17 statements of federal financial accounting standards (SFFAS) and 3 statements of federal financial accounting concepts.[22] FASAB continues to deliberate on new and emerging accounting issues that could result in the issuance of additional standards; therefore, agencies' systems must be able to accommodate any new standards that may be issued in the future.

As shown in table 1, auditors for 15 of the 20 noncompliant agencies reported that the agencies had problems complying with one or more federal accounting standards. Some agencies have experienced difficulty implementing these standards because their financial management systems are not capable of producing the financial data needed.

For example, the processes and procedures used by the Department of Agriculture's (USDA) lending agencies to estimate and reestimate loan subsidy costs do not comply with SFFAS No. 2,

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[19] *Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance For Fiscal Year 1999*, (Report No. 0-000-00-006-F, February 18, 2000).

[20] "Data calls" is a term used to describe the process of requesting various offices to provide outstanding balances as of year-end. The resulting reports are prepared from data contained outside the formal accounting system.

[21] In October 1990, the Secretary of the Treasury, the Director of OMB, and the Comptroller General established FASAB to recommend a set of generally accepted accounting standards for the federal government. FASAB develops accounting standards after considering the financial and budgetary information needs of the Congress, executive agencies, other users of federal financial information, and comments from the public. FASAB forwards the standards to the three principals—the Comptroller General, the Secretary of the Treasury, and the Director of OMB—for a 90-day review. If there are no objections during the review period, the standards are considered final and FASAB publishes them on its website and in print.

[22] Accounting standards are authoritative statements of how particular types of transactions and other events should be reflected in financial statements. Statements of Federal Financial Accounting Concepts explain the objectives and ideas upon which FASAB develops the standards.

Accounting for Direct Loans and Loan Guarantees. SFFAS No. 2, which generally mirrors the requirements of the Federal Credit Reform Act of 1990, contains guidance for agencies to estimate the cost of direct and guaranteed loan programs when preparing their annual budgets. The data used for these budgetary estimates are generally reestimated after the fiscal year-end to reflect any changes in actual loan performance since the budget was prepared. SFFAS No. 2 also contains guidance for recording the reestimated cost of direct loans and the reestimated liability for loan guarantees in the agency's financial statements. Further, SFFAS No. 2 states that agencies should use historical experience as a primary factor upon which estimates of future loan performance should be developed.

We testified before this Subcommittee in March[23] that USDA was unable to develop reasonable estimates of the costs of its loan programs because its financial systems were not able to capture the data needed to make these estimates. Also, USDA lacked historical information on borrower behavior, such as how many borrowers will pay early, pay late, or default on their loans and at what point in time. As a result, Congress and other decisionmakers do not know whether they can rely on the agency-reported costs of USDA's loan programs included in the agency's budget request and in its annual financial statements—estimated to be in excess of $27.3 billion as of September 30, 1999—for programmatic and budgetary decision-making. Cost estimates based on unreliable data can affect the availability of credit programs to potential borrowers because changes in these estimates can affect the number and amount of loans and guarantees that can be made.

The Department of Transportation (DOT) also has had difficulty implementing federal accounting standards. DOT's IG reported[24] that DOT did not comply with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, because its accounting system cannot capture costs by major program. According to SFFAS No. 4, federal agencies must provide reliable and timely information on the full costs of their programs, activities, and outputs. The CFO Act also calls for the development of cost information and the systematic measurement of performance. Agencies need this cost information to successfully implement the Government Performance and Results Act (GPRA),[25] which seeks to shift the focus of federal management and decision-making from a preoccupation with the number of tasks completed or services provided to a more direct consideration of the results of programs—that is, the real differences the tasks or services make to the nation or individual taxpayer. The lack of cost accounting information limits an agency's ability to meaningfully evaluate performance in terms of efficiency and cost-effectiveness. Agency cost accounting information can be used by the Congress and federal managers to make decisions about allocating federal resources, authorizing and modifying programs, and evaluating program performance, as called

[23]*Financial Management: USDA Faces Major Financial Management Challenges* (GAO/T-AIMD-00-115, March 21, 2000).
[24]*Office of Inspector General Audit Report, Fiscal Year 1999 Consolidated Financial Statements, Department of Transportation*, Report No. FE-2000-062, March 8, 2000.
[25]GPRA requires agencies to set multiyear strategic goals in their strategic plans and corresponding annual goals in their performance reports, measure performance toward the achievement of those goals, and report on their progress in their annual performance reports. These reports are intended to provide important information to agency managers, policymakers, and the public on what each agency accomplished with the resources it was given.

for in GPRA. However, without relevant and reliable cost accounting information, which is a governmentwide problem, federal managers cannot be sure that resources are spent to achieve expected results and outputs and that waste and inefficiency are minimized.

Weak Security Over Information Systems

Information security weaknesses are one of the primary causes of noncompliance with FFMIA and a huge concern for federal agencies and the general public. As we recently testified,[26] hacker attacks have shown just how quickly computer viruses—such as Melissa and ILOVEYOU—can spread and just how vulnerable federal information systems are to such computer attacks. These viruses have clearly highlighted the urgent and serious need for stronger agency and governmentwide protection over agency data.

As shown in table 1, auditors for 19 of the 20 noncompliant agencies reported information security weaknesses as a problem in fiscal year 1999. Further, our analyses as well as those of agency inspectors general show that virtually all of the largest federal agencies have significant computer security weaknesses.[27] These weaknesses, which we designated as a governmentwide high-risk area in 1997 and 1999,[28] are placing enormous amounts of federal assets at risk of inadvertent or deliberate misuse, financial information at risk of unauthorized modification or destruction, sensitive information at risk of inappropriate disclosure, and critical operations at risk of disruption. Our recent update to the federal government's internal control standards highlights the need for adequate control over automated information systems to ensure protection from inappropriate access and unauthorized use by hackers and other trespassers or inappropriate use by agency personnel.

The most serious reported information security problem is inadequately restricted access to agency data, including sensitive data such as taxpayer records, personal medical information, and law enforcement data. Other types of information security weaknesses include inadequacies in segregating duties to help ensure that people do not conduct unauthorized actions without detection, in preventing unauthorized software from being implemented, and in mitigating and recovering from unplanned interruptions in computer service. Unresolved information security weaknesses could adversely affect the ability of agencies to produce accurate data for decision-making and financial reporting because such weaknesses could compromise the reliability and availability of data that are recorded in or transmitted by an agency's financial management systems.

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[26]*Information Security: The Melissa Computer Virus Demonstrates Urgent Need for Stronger Protection Over Systems and Sensitive Data* (GAO/T-AIMD-99-146, April 15, 1999) and *Information Security: "ILOVEYOU" Computer Virus Emphasizes Critical Need for Agency and Governmentwide Improvements* (GAO/T-AIMD-00-171, May 10, 2000).
[27]*Critical Infrastructure Protection: Comments on the National Plan for Information Systems Protection* (GAO/T-AIMD-00-72, February 1, 2000) and *Federal Information Security: Actions Needed to Address Widespread Weaknesses* (GAO/T-AIMD-00-135, March 29, 2000).
[28]*High-Risk Series: An Overview* (GAO/HR-97-1, February 1997) and *High-Risk Series: An Update* (GAO/HR-99-1, January 1999).

For example, we testified in May that the Department of Education was plagued by serious internal control and system deficiencies, including computer security vulnerabilities.[29] Education places significant reliance on its financial management systems to perform basic functions, such as making payments to grantees and maintaining budget controls. Consequently, weaknesses in Education's information systems, such as lack of an effective process to monitor security violations, increase the risk of unauthorized access or disruption in services and make Education's sensitive grant and loan data vulnerable to inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction, all of which could occur without being detected in a timely manner. Given the high volume of transactions that flow through Education's Grant Administration and Payment System alone—over $30 billion a year—it is imperative that Education focus on addressing its computer security vulnerabilities.

The Department of Health and Human Services (HHS) is another agency with weak security over its information systems. HHS' IG cited[30] weaknesses in the entitywide security structure at the Health Care Financing Administration (HCFA), which administers the Medicare program. HCFA relies on extensive computer operations at both its central office and the Medicare contractors to administer the Medicare program and to process and account for Medicare expenditures, which totaled more than $200 billion in fiscal year 1999. Controls over these operations are essential to ensure the integrity, confidentiality, and reliability of critical data while reducing the risk of errors, fraud, and other illegal acts. These control weaknesses do not effectively prevent unauthorized access to and disclosure of sensitive Medicare information.

One more example of an agency with serious information security weaknesses is the Environmental Protection Agency (EPA). In February,[31] we reported that EPA's agencywide security program was ineffective because of pervasive problems, the most serious of which were related to inadequate protection from intrusions through the Internet and poor security planning. We identified weaknesses that made it possible for intruders, as well as EPA employees or contractors, to bypass or disable computer access controls and undertake any of a wide variety of inappropriate or malicious acts, including tampering with data, browsing sensitive information, and seriously disrupting or disabling computer-supported operations. Weaknesses we identified were associated with the operating systems of EPA's main computers and agencywide network and therefore affect the security of all of the EPA operations that rely on them. These operations include computer applications that EPA relies on to carry out their day-to-day operations, including financial management. EPA officials recognize the seriousness of the issues and have informed us of some corrective actions and announced other plans which, if properly implemented, can begin to address several of these serious problems.

[29] *Financial Management: Education's Financial Management Problems Persist* (GAO/T-AIMD-00-180, May 24, 2000).
[30] *Report on the Financial Statement Audit of the Department of Health and Human Services for Fiscal Year 1999*, Report No. A-17-99-00002, February 2000.
[31] *Information Security: Fundamental Weaknesses Place EPA Data and Operations at Risk* (GAO/T-AIMD-00-97, February 17, 2000).

INCREASING NUMBER OF AGENCIES RECEIVE UNQUALIFIED AUDIT OPINION, BUT SYSTEMS WEAKNESSES REMAIN

Although the number of agencies receiving "clean" or unqualified audit opinions[32] is increasing, the financial management systems of most agencies continue to be noncompliant with FFMIA's requirements and, therefore, fall short of the CFO Act's and FFMIA's goal to provide reliable, useful, and timely information to assist in day-to-day management. Fourteen of the 23 CFO Act agencies whose audit reports were issued as of June 1, 2000, received unqualified audit opinions on their financial statements for fiscal year 1999, up from 12 in fiscal year 1998 and 11 in fiscal year 1997. Yet FFMIA noncompliance has been fairly consistent since fiscal year 1997 when the systems of 20 of the 24 CFO Act agencies were reported to be noncompliant. In fiscal year 1998, the systems of 21 of the 24 agencies were reported to be noncompliant, and in fiscal year 1999, the systems of 20 of the 23 agencies whose audit reports had been issued were reported to be noncompliant. The Department of State, which had not issued its audit report as of June 1, 2000, was found to be noncompliant with FFMIA in fiscal years 1997 and 1998.

Auditors of 11 of the 14 agencies that received unqualified audit opinions reported that the agencies' financial systems did not comply substantially with FFMIA's requirements in fiscal year 1999. In many cases, these agencies spent considerable resources to obtain a clean opinion because their financial statements could not be produced from their financial systems. Table 2 summarizes the auditors' FFMIA determinations and financial statement opinions for fiscal year 1999 and highlights the 11 agencies that received clean audit opinions in spite of their systems problems.

[32]In an unqualified opinion, the auditor concludes that the principal statements and accompanying notes present fairly, in all material respects, the assets, liabilities, and net position of the entity at the end of the period, and the net costs, changes in net position, budgetary resources, and reconciliation of net costs with budgetary obligations for the period then ended.

Table 2: Auditors' FFMIA Determinations and Financial Statement Opinions for Fiscal Year 1999

Agency	Auditor's determination of substantial compliance		Audit opinion		
	Yes	No	Unqualified	Qualified	Disclaimer
Department of Agriculture		√			√
Department of Commerce		√	√		
Department of Defense		√			√
Department of Education		√		[a]	
Department of Energy [b]	√		√		
Department of Health and Human Services		√	√		
Department of Housing and Urban Development		√			√
Department of the Interior		√	√		
Department of Justice		√		√	
Department of Labor		√	√		
Department of State [c]					
Department of Transportation		√	√		
Department of the Treasury		√		√	
Department of Veterans Affairs		√	√		
Agency for International Development		√			√
Environmental Protection Agency		√		√	
Federal Emergency Management Agency		√	√		
General Services Administration		√	√		
National Aeronautics and Space Administration	√		√		
National Science Foundation	√		√		
Nuclear Regulatory Commission		√	√		
Office of Personnel Management		√	[d]		

Agency	Auditor's determination of substantial compliance		Audit opinion		
	Yes	No	Unqualified	Qualified	Disclaimer
Small Business Administration		√	√		
Social Security Administration		√	√		
Total	3	20	14	3	4

= Auditors gave the agency's financial statements an unqualified audit opinion, but reported that the agency's systems did not comply substantially with FFMIA's requirements.

Source: GAO analysis of agency audit reports for fiscal year 1999.

[a]Education received a disclaimer of opinion on its Statement of Financing and qualified opinions on its other financial statements.
[b]According to OMB guidance in OMB Bulletin 98-08, material weaknesses in internal controls that affect an agency's ability to prepare auditable financial statements and related disclosures is an indication of noncompliance with FFMIA. In its fiscal year 1999 Report on Internal Controls, the Department of Energy's IG reported a material weakness related to the Western Area Power Administration's new financial management system. The report states, "While the Department's systems as a whole substantially comply with FFMIA, the new financial management system implemented by Western was not in compliance with the FFMIA requirements as of September 30, 1999....Thus, Western was unable to adequately track and report on budget execution and meet external reporting requirements, including preparation of financial statements."
[c]Audit report not issued as of June 1, 2000.
[d]The Office of Personnel Management does not prepare agency-wide financial statements. For fiscal year 1999, OPM received disclaimers of opinion on its financial statements for Revolving Fund and Salaries and Expenses and unqualified opinions on the financial statements for the Retirement, Health Benefits Insurance, and Life Insurance Programs.

Financial statement audit results are key indicators of the quality of agency financial data at year-end and provide an annual public scorecard on accountability. Agencies are to be commended for receiving unqualified audit opinions. At the same time, a clean audit opinion is not an end in and of itself. A clean audit opinion assures financial statement users only that the information is fairly presented as of the date of the financial statements. It provides no assurance about the effectiveness and efficiency of financial systems used to prepare the statements or whether use of the same or other information for management use would be appropriate. The results shown in table 2 indicate that, although auditors reported that the financial statements of 14 of the 23 CFO Act agencies were fairly presented and reliable at the end of the fiscal year, the financial systems of 20 of the agencies have weaknesses, some of which are so serious that they are not able to routinely provide reliable, useful, and timely information on an ongoing basis.

It bears repeating that the goal of the CFO Act, FFMIA, and other key financial legislation is to establish systems that routinely produce reliable, useful, and timely financial information for decisionmakers in the agency, in the Congress, and elsewhere as part of agencies' ongoing daily operations. In order to receive an unqualified opinion, many agencies whose systems did not comply with FFMIA had to rely on time-consuming ad hoc programming and analysis of data produced by inadequate systems that are not integrated or reconciled and often require significant audit adjustments.

HHS is an example of an agency that obtained a clean opinion, even though its systems did not satisfy FFMIA requirements. HHS' IG reported[33] that the accounting systems used by HHS and its operating divisions did not meet FFMIA criteria because they were not adequate for preparing reliable and timely financial statements. Because of these systems inadequacies, HHS resorted to a manually intensive and error-prone process, involving numerous manual account adjustments. Together, this led to delays in preparing the statements, increased the risk of material misstatements, and limited the resources available for financial analyses. The extent and magnitude of account adjustments required at year-end demonstrate that the systems were not operating efficiently or effectively. For example, HCFA, HHS' largest operating division with almost $300 billion in net outlays[34] in fiscal year 1999, issued its initial financial statements in mid-December 1999 and then made billions of dollars in adjustments to payables and receivables before producing final, auditable financial statements in late January 2000.

Likewise, while IRS was able to receive a clean audit opinion on its fiscal year 1999 Statement of Custodial Activity, its systems do not comply with FFMIA. We were able to verify that the reported balances on the Statement of Custodial Activity were fairly stated, in all material respects, only after extensive audit procedures and tens of billions of dollars of adjustments. IRS had to rely on extensive, labor-intensive, and time consuming compensating ad hoc procedures to enable it to report reliable revenue and refund balances on its Statement of Custodial Activity.

DOT received its first unqualified opinion on its fiscal year 1999 departmentwide financial statements. However, like several other agencies, in spite of the clean opinion, DOT's IG reported[35] that its systems did not comply substantially with FFMIA. DOT's existing core accounting system—designed to be the primary system for producing financial information and financial statements—was not the primary source of information used to prepare the financial statements. Because the core system did not provide the necessary data, DOT made about 800 adjusting entries totaling $36 billion. Also, according to the IG, [36] the Federal Aviation Administration's property systems were not designed as an integrated system to accurately account for property costs. Therefore, DOT hired additional contractors, detailed employees, and used extensive overtime and compensatory time to provide sufficient evidence to support the amounts of property, plant, and equipment shown on its financial statements. The IG reported that these manual and labor-intensive methods are expensive; prone to errors, mistakes, and inaccuracies; and cannot be sustained.

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[33] *Report on the Financial Statement Audit of the Department of Health and Human Services for Fiscal Year 1999*, Report No. A-17-99-00002, February 2000.

[34] The almost $300 billion in net outlays includes the Medicare and Medicaid programs, which are both administered by HCFA.

[35] *Office of Inspector General Audit Report, Fiscal Year 1999 Consolidated Financial Statements, Department of Transportation*, Report No. FE-2000-062, March 8, 2000.

[36] *Fiscal Year 1999 Financial Statements, Federal Aviation Administration*, Report No. FE-2000-060, February 29, 2000.

As I have just illustrated, many agencies rely on time-consuming, costly procedures to receive a clean opinion. Absent substantive improvements in underlying financial systems, these agencies will likely continue to rely on these procedures every year to maintain that opinion. Similarly, agencies that have not yet achieved the milestone of receiving a clean opinion will feel pressure to also perform such costly procedures every year until their systems are able to produce reliable, useful, and timely financial information. Having good systems would eliminate the time and expense needed to routinely produce a complete set of auditable financial statements and allow financial management staff to address other critical and frankly more valuable functions, such as analyzing cost data and other financial data and developing financial and program results information.

The Social Security Administration (SSA) has achieved the end game—systems and processes that routinely generate reliable, useful, and timely information. SSA is able to prepare financial statements from information in its financial system. SSA's audited financial statements for fiscal year 1999, for which it received a clean opinion, were issued on November 18, 1999, only 7 weeks after the close of the fiscal year and almost 3½ months before the March 1 statutory deadline. SSA's auditor did find serious problems with computer security and continuity of operations but otherwise found that SSA's financial systems substantially comply with FFMIA.

Having an effective, integrated financial management system that can produce financial statements in a timely manner would prevent the need for time-consuming and costly procedures. In our *Executive Guide: Creating Value Through World-class Financial Management*, we identified the success factors, practices, and outcomes associated with world-class financial management efforts. We found that many leading finance organizations have a goal to reduce the time spent on routine accounting activities, such as financial statement preparation, so that financial management staff can spend more time on activities such as business performance analysis or cost analysis.

Mr. Chairman, these problems are not new. As I mentioned at the outset of my testimony, financial systems problems date back many years, and agencies have known about their severity for just as long. In 1989, we reported that many federal financial systems were weak, outdated, and inefficient and could not routinely produce relevant, timely, and comprehensive data.[37] Now, over 10 years later, the vast majority of agencies' financial systems still do not meet the goals of the CFO Act, although today, through the rigors of the financial statement audit process and the requirements of FFMIA, agencies have a better understanding of their problems and the impetus to resolve those problems. As I will discuss later, agencies have efforts planned or underway to address their systems problems, and we are seeing a commitment across government. However, until these systems problems are resolved, agencies will continue with their extraordinary, inefficient, time-consuming efforts to obtain a clean opinion.

We may be back in a few years to report that substantially more, perhaps even all, of the 24 CFO Act agencies have received clean audit opinions. I feel less confident that their systems will, in the short term, comply with FFMIA and meet the intended results of the CFO Act. The biggest

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[37] *Financial Integrity Act: Inadequate Controls Result in Ineffective Federal Programs and Billions in Losses* (GAO/AFMD-90-10, November 28, 1989).

concern is that while all or almost all agencies will have devised and mastered a repeatable process for developing reliable annual results of operations and year-end balances, overhauling financial systems is a much more difficult challenge. Overhauling systems is at the heart of the end game we have spoken about—reliable, useful, and timely data for accurately measuring performance and providing a basis for ongoing management and decision-making.

KEY ELEMENTS FOR IMPROVING FINANCIAL MANAGEMENT SYSTEMS

Bringing financial management systems into compliance with the requirements of FFMIA is a formidable challenge for any agency. Today, across government, agencies recognize the severity of their systems weaknesses and have made plans or are already taking action to resolve them, including the development of new core financial management systems. We have issued guidance to help agencies make information technology investment decisions and improve information security management. JFMIP has efforts underway, including the testing of commercial off-the-shelf software for compliance with current systems requirements and updating and issuing systems requirements documents. Finally, lessons learned from the government's Year 2000 efforts can be applied to efforts to help improve agencies' financial management systems so that they can produce the reliable, useful, and timely information needed by management and other decisionmakers.

Plans to Replace or Overhaul Agencies' Systems

Agencies have submitted remediation plans to OMB describing the corrective actions they plan to take to address the problems previously discussed in this statement, including the replacement or overhaul of their financial management systems. We are currently reviewing these plans and intend to include the results of our review in our annual FFMIA report in October. In our previous report on FFMIA,[38] we reviewed agency audit reports and remediation plans and found that several agencies' corrective actions included development of new core financial management systems to replace noncompliant systems. Information from OMB's inventory of financial systems shows that over the next few years, significant amounts of money will be needed to replace or upgrade 79 percent of the over 1,100 financial management system applications[39] that were reported as being in operation at the time.

Information Technology Investment and Security Guidance

Replacing financial systems will understandably take time, and the systems may not be operational for several years. For many years, federal agencies have struggled with delivering promised system capabilities on time and within budget. This has proven to be a difficult challenge. We have reported in the past that billions of dollars have been wasted on systems development projects. This waste helped give rise to the 1996 enactment of the Clinger-Cohen

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[38] *Financial Management: Federal Financial Management Improvement Act Results for Fiscal Year 1998* (GAO/AIMD-00-3, October 1, 1999).

[39] An application is a group of interrelated components of financial or mixed systems that supports one or more functions and has the following characteristics: a common data base, common data element definitions, standardized processing of similar types of transactions, and common version control over software.

Act. Clinger-Cohen put in place a disciplined system development process for deciding upon and controlling information technology investments.

To ensure that information technology dollars are directed toward prudent investments designed to achieve cost savings, increase productivity, and improve the timeliness and quality of service delivery, agencies need to apply the framework outlined in the Clinger-Cohen Act and implementing guidance.[40] This includes adopting sound information technology investment and control processes, designing well-developed architectures to guide information flows and technical standards, and establishing disciplined approaches for developing and acquiring computer software.

In this regard, we have worked on strengthening federal agency management of information technology investment and have developed guidance based on best practices in the public and private sectors related to information technology investment. Two guides resulting from our work are:

- *Assessing Risks and Returns: A Guide for Evaluating Agencies' IT Investment Decision-making* (GAO/AIMD-10.1.13, February 1997) and
- *Executive Guide: Measuring Performance and Demonstrating Results of Information Technology Investments* (GAO/AIMD-98-89, March 1998).

However, it is important to remember that these guides are not a "silver bullet" to guarantee success. Rather, the key is for an organization to adopt and effectively implement policies and procedures, such as those described in the guides, that foster the necessary discipline for the organization to produce predictable and repeatable results. Therefore, it is critical that an organization first choose the practices that are compatible with its culture and then effectively implement those practices.

In addition to the guidance we issued on information technology investment decisions, we have issued guides to help agencies improve security over their information systems. As mentioned previously, weaknesses in information systems security was a reported cause of FFMIA noncompliance for 19 of the 20 noncompliant agencies. We have identified best practices for improving information security management, which we published in two guides:

- *Information Security Management: Learning from Leading Organizations* (GAO/AIMD-98-68, May 1998) and
- *Information Security Risk Assessment: Practices of Leading Organizations* (GAO/AIMD-00-33, November 1999).

Our guides are consistent with guidance on information security program management provided to agencies by OMB and the National Institute of Standards and Technology. In addition, the May 1998 guide has been endorsed by the federal Chief Information Officers Council as a useful resource for agency managers.

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[40]The Clinger-Cohen Act of 1996 builds on the best practices of leading public and private organizations by requiring agencies to better link information technology planning and investment decisions to program missions and goals.

JFMIP Software Certification

An important effort focused specifically on improving federal financial systems is the work of the JFMIP. In a governmentwide cooperative effort to improve federal financial systems, JFMIP established its Program Management Office (PMO) in 1998 with resources provided by the 24 CFO agencies to assist agencies and vendors in developing and implementing commercial off-the-shelf software that complies with current financial management system requirements. The PMO's responsibilities include, among other things, developing comprehensive testing vehicles, interpreting requirements, serving as an information clearinghouse for federal financial systems, and facilitating communication with the private sector.

In fiscal year 1999, the PMO implemented a new software testing process in which it tests vendor products to certify that they meet current JFMIP systems requirements. The PMO publishes the testing results in its Web-based electronic repository, called the Knowledgebase, which also includes information for agencies and vendors about financial systems requirements, business practices, and certified vendor products. JFMIP compliant systems help assure an agency that the system properly records transactions defined in the JFMIP Core Financial System Requirements document. However, agencies will still need to define their business requirements and then compare the various applications against those requirements to identify gaps. Once these gaps are identified, agencies need to determine the cost, schedule, and performance impacts associated with these gaps and determine the best approach to accomplishing the requirement—modifying the system or, if the desired functionality is not cost effective, eliminating the requirement. OMB Circular A-127, *Financial Management Systems*, requires that agencies replacing software to meet core financial system requirements use off-the-shelf software that has been tested and certified through the JFMIP software certification process as meeting JFMIP core financial system requirements.

Systems Requirements Documents and Checklists

JFMIP has also been updating existing financial management systems requirements, as well as issuing requirements documents covering systems where none previously existed. JFMIP's systems requirements publications are the primary source of governmentwide requirements for financial management systems. These requirements are detailed in the Federal Financial Management Systems Requirements (FFMSR) series issued by JFMIP which, according to OMB Circluar A-127, *Financial Management Systems*, agencies are required to follow. Table 3 lists the publications in the FFMSR series and their issue dates.

Table 3: Publications in the Federal Financial Management System Requirements Series

Federal Financial Management System Requirements (FFMSR) Document		Issue date
FFMSR-0	*Framework for Federal Financial Management Systems*	January 1995
FFMSR-7	*Inventory System Requirements*	June 1995
FFMSR-8	*Managerial Cost Accounting System Requirements*	February 1998
JFMIP-SR-99-4	*Core Financial System Requirements*	February 1999
JFMIP-SR-99-5	*Human Resources & Payroll Systems Requirements*	April 1999
JFMIP-SR-99-8	*Direct Loan System Requirements*	June 1999
JFMIP-SR-99-9	*Travel System Requirements*	July 1999
JFMIP-SR-99-14	*Seized Property and Forfeited Asset Systems Requirements*	December 1999
JFMIP-SR-00-01	*Guaranteed Loan System Requirements*	March 2000

JFMIP is also developing systems requirements where none existed. JFMIP issued an exposure draft on *Property Management System Requirements* this past April and is finalizing its *Grant Financial System Requirements*. JFMIP systems requirements, among other things, provide a framework for establishing integrated financial management systems to support program and financial managers. JFMIP also issued an exposure draft[41] of a guide to assist agencies in performing financial management systems reviews as required by FFMIA and other legislation.

As one of the JFMIP's principals, we have published checklists to assist agencies in implementing and monitoring their systems and to assist management and auditors in reviewing systems to determine whether they are in substantial compliance with FFMIA. The checklists are based on JFMIP systems requirements documents. We issue them when JFMIP requirements are published for the first time and when requirements are updated. Table 4 lists the checklists we have issued in final form or as exposure drafts.

[41] *Financial Management Systems Compliance Review Guide* (JFMIP-MI-99-15, October 1999, exposure draft).

Table 4: Checklists for Reviewing Systems Under the Federal Financial Management Improvement Act

Checklist	Issue date
GAO/AIMD-98-21.2.1 *Framework for Federal Financial Management System Checklist*	May 1998
GAO/AIMD-00-21.2.2 *Core Financial System Requirements Checklist*	February 2000
GAO/AIMD-00-21.2.3 *Human Resources and Payroll Systems Checklist*	March 2000
GAO/AIMD-98-21.2.4 *Inventory System Checklist*	May 1998
GAO/AIMD-21.2.5 *Seized Property and Forfeited Assets System Requirements Checklist* (exposure draft)	April 2000
GAO/AIMD-21-2.6 *Direct Loan System Requirements Checklist*	April 2000
GAO/AIMD-21.2.8 *Travel System Requirements Checklist*	May 2000
GAO/AIMD-99-21.2.9 *System Requirements for Managerial Cost Accounting Checklist*	January 1999

Lessons Learned from Year 2000 Efforts

Finally, the leadership and partnerships established to successfully address the Year 2000 computing problem provide valuable lessons that can also be used to address financial management reform across government. In our October 1999 FFMIA report[42] we noted that addressing Year 2000 conversion issues was understandably a priority for federal agencies and that Year 2000 preparation had resulted in delaying financial systems changes in some agencies. We also reported that, over the long term, there should be residual benefits from Year 2000 efforts. Now that the federal government has made the successful conversion to Year 2000, it has learned some valuable lessons.

We testified before this Subcommittee in January about the Year 2000 computing challenge, including lessons that can be carried forward to improve the management of information technology activities.[43] Among the lessons learned were the importance of (1) providing high-level congressional and executive branch leadership, (2) understanding the importance of computer-supported operations, (3) providing standard guidance, (4) establishing partnerships, (5) facilitating progress and monitoring performance, and (6) implementing fundamental information technology improvements. The Year 2000 efforts have reinforced an understanding of the importance of consistent and persistent top management attention, which is essential to solving any intractable problem.

[42] *Financial Mangement: Federal Financial Management Improvement Act Results for Fiscal Year 1998* (GAO/AIMD-00-3, October 1, 1999).
[43] *Year 2000 Computing Challenge: Leadership and Partnerships Result in Limited Rollover Disruptions* (GAO/T-AIMD-00-70, January 27, 2000).

According to officials at OMB, the Year 2000 problem also gave agency chief information officers a "crash course" in how to accomplish projects. Many chief information officers were relatively new in their positions, and expediting Year 2000 efforts required many of them to quickly gain an understanding of their agency's systems, work extensively with agency program managers and chief financial officers, and become familiar with budgeting and financial management practices. Addressing these issues, in turn, provided them with real-time experience in responding to far-reaching management problems and in finding solutions. These experiences could prove valuable to resolving the systems issues impeding compliance with FFMIA.

CONCLUSIONS

Long-standing problems with agencies' financial systems make it difficult for the agencies to produce reliable, useful, and timely financial information and hold managers accountable. Federal managers need this important information for formulating budgets, managing government programs, and making difficult policy choices. The extraordinary efforts that many agencies go through to produce auditable financial statements are not sustainable in the long term. These efforts use significant resources that could be used for other important financial-related work. For these reasons, the widespread systems problems need top management attention. We learned from the Year 2000 experience that proactive leadership at the highest levels of government is one of the most important factors in prompting attention and action on a widespread problem.

The federal government's size and complexity and the discipline needed to overhaul or replace its financial management systems present a significant challenge—not simply a challenge to overcome a technical glitch, but a demanding management challenge that requires attention from the highest levels of government. We recognize that it will take time, investment, and sustained emphasis on correcting deficiencies to improve federal financial management systems to the level required by FFMIA and for effectively managing government funds. However, with concerted effort, including attention from top agency management and the Congress, the federal government can make progress toward improving its financial management systems and thus achieve the goals of the CFO Act and provide accountability to the nation's taxpayers.

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Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or other Members of the Subcommittee may have.

CONTACTS AND ACKNOWLEDGMENTS

For information about this statement, please contact Gloria Jarmon, Director, Health, Education, and Human Services, Accounting and Financial Management Issues, at (202) 512-4476 or by e-mail at *jarmong.aimd@gao.gov.* Individuals making key contributions to this statement include Kay Daly, Diane Morris, Sandra Silzer, and Meg Mills.

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Mr. HORN. We now go to Karen Alderman, Executive Director of the Joint Financial Management Improvement Program.

STATEMENT OF KAREN C. ALDERMAN, EXECUTIVE DIRECTOR, JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM

Mrs. ALDERMAN. Mr. Chairman, Mr. Ose, thank you for the opportunity to discuss the role of the Joint Financial Management Improvement Program in supporting the goals of the FFMIA.

The mission of JFMIP is to improve financial management practices in the government through a joint and cooperative effort. I am supported by the U.S. Department of Treasury, the General Accounting Office, the Office of Management and Budget, the Office of Personnel Management and all Federal agencies.

The major JFMIP responsibilities with respect to Federal financial management systems includes issuing financial system requirements, testing and qualifying core financial software for agency use, and facilitating information exchange among all stakeholders, both public and private sectors.

Regarding financial system requirements, JFMIP has been in the business of issuing financial management systems requirements documents since the 1980's. The framework for Federal financial management systems describes the Federal agency system architecture as including core financial system, managerial cost accounting, and 13 feeder systems.

System requirement documents serve many roles. They facilitate the exchange of software for common administrative functions within the Federal Government; they help organize the private sector market by communicating mandatory functionality that commercial software must be able to provide to the Federal Government, as well as identifying value-added features desired by Federal agencies; they provide benchmarks for agency compliances under FFMIA and have served as a tool for oversight agencies to evaluate systems; and they also help agencies justify system improvements or replacements.

Upon the passage of FFMIA in 1996, requirements documents existed only for the core financial system, and 6 of the 13 subsidiary systems. Several of those documents needed to be updated for recent laws and regulatory revisions.

Since 1998, JFMIP undertook efforts to bring all existing documents up to date and to develop documents for those functions where none had existed before. I brought a little color coded slide here for you that shows the progress in 2½ years. The green are those documents that have been updated and reissued since 1998. The orange are those that are under way, including benefits, grants and property management systems; inventory system was issued in 1995; and those in blue, which includes acquisition, revenue, budget formulation and insurance claim systems, are yet to be worked on. But we have plans to address them starting by 2001.

The second area I would like to highlight is the core financial system testing and qualification process. In 1998, the CFO Council and the JFMIP partnered to reengineer the core financial systems testing and qualification and procurement processes to improve the availability of commercial software and to improve the chances that agencies can successfully implement new systems.

Prior to 1999, the testing of core financial systems software was accomplished in connection with the mandatory General Services Administration schedule for Federal financial management systems software. Information regarding the testing process was limited. The test addressed less than one-third of the existing requirements, and arrangements for software testing relied upon agency volunteers and other ad hoc arrangements.

The CFO Council recommended, one, the establishment of a program management office under JFMIP with responsibility for developing tools and capabilities necessary to improve financial systems across the Federal Government; two, the separation of the test and qualification process from the procurement process to allow visibility of the testing; and, three, the establishment of an electronic knowledgebase to share information widely.

October 1, 1999, marked the transition to the new process. The components of that new process included up-to-date core financial system requirements, complemented by the identification and prioritization of value-added features desired by Federal agencies; an open and comprehensive testing and qualification process that tests, in whole or in part, all testable mandatory requirements; the modification of OMB Circular A–127 "Financial Management Systems" to eliminate the mandatory FMSs schedule and to allow agencies to procure under any procurement vehicle, as long as agencies procure software for core financial systems that have been qualified by JFMIP.

The purpose of the testing was to reduce risk to the government, produce useful information, reduce agency test effort, and provide critical information to commercial business partners to allow them to be successful in providing core accounting software that meets Federal requirements.

The JFMIP test is efficient. It is 166 test steps that test 91 percent of the mandatory requirements fully or partially, and GAO helped us validate this test.

As of May 2000, nine software products offered by seven vendors have received certificates of compliance.

JFMIP maintains the current list of qualified software on the knowledgebase along with information about value-added features and our test methodologies.

In addition, our testing process is designed to ensure that our commercial business partners update their products to meet new Federal requirements. When a software package passes, JFMIP issues that certificate for 3 years. If Federal requirements change during that 3-year period, we institute and implement an incremental test the vendor must pass in order to retain that certificate of compliance. In 2000, JFMIP will be administering the first incremental test to ensure that software can support the Federal Agencies' Centralized Trial-Balance System, FACTS II. Those in the business know that acronym. That is the reporting process for budget formulation data and budget execution data to the Office of Management and Budget and the Treasury.

Other JFMIP efforts to improve financial management systems include improving the financial systems compliance review process, which Mr. Gotbaum mentioned; developing a road map that provides accessible information to help agencies manage full life cycle of financial management system planning, implementation and management; and, finally, building capacity within the Federal financial management work force to manage transition to the next generation of financial management systems.

In summary, JFMIP is leveraging resources to provide system requirements, testing and tools, and, in doing so, demonstrates commitment among Federal stakeholders to address common system challenges in a cost-effective manner. In the short term, the payoff has been to reduce agencies' costs and risks in replacing systems. The longer term payoff will help in achieving the goals of the FFMIA.

Thank you very much.

Mr. HORN. Thank you.

[The prepared statement of Mrs. Alderman follows:]

Statement by Karen Cleary Alderman, Executive Director
Joint Financial Management Improvement Program (JFMIP)
before the Subcommittee on Government Management, Information, and Technology
Committee on Government Reform
June 6, 2000

Thank you for the opportunity to discuss the role of the Joint Financial Management Improvement Program (JFMIP) in supporting the goals of the Federal Financial Management Improvement Act (FFMIA). The mission of the JFMIP is to improve financial management practices in the government through the joint and cooperative efforts of the U.S. Department of the Treasury (Treasury), the General Accounting Office (GAO), the Office of Management and Budget (OMB), the Office of Personnel Management (OPM), and all Federal agencies. Major JFMIP responsibilities with respect to Federal financial management systems include issuing Federal financial system requirements, testing and qualifying core financial system software for Federal agency use, and facilitating information exchange among all stakeholders, both in the public and private sectors. My testimony highlights ongoing JFMIP efforts in these areas.

Financial management systems that support Federal accounting needs are one of the key pillars for achieving the improvement in financial management envisioned by the CFO Act. The vision for Federal financial management systems is to support a partnership between program and financial managers to assure the integrity and availability of information for decision making and performance measurement. To achieve that vision, Federal financial systems need to:

- Produce accurate, timely, complete, reliable and consistent information
- Provide adequate agency management reporting
- Support governmentwide and agency policy decisions
- Support preparation and execution of agency budgets
- Facilitate financial statement preparation
- Provide information to central agencies
- Provide cost information for agency decision-makers, and
- Provide audit trail information

Without timely, accurate, and consistent financial data, it is difficult, at best, to make informed decisions regarding the delivery of Federal programs. The importance of financial systems in providing this functionality is indisputable. The passage of the FFMIA in 1996 reemphasized the need for Federal financial systems to support the building blocks of financial and performance information by placing in statute three existing policy requirements. Section 803 (a) requires that each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level.

Many Federal financial systems are antiquated and unable to provide critical financial information. Currently, most financial management systems used by Federal agencies are internally developed products. Only about 13 percent of current system applications are commercial off-the-shelf products, and many of those are customized, making it difficult to accommodate new requirements. While some agencies have been able to successfully implement new financial systems, many other agencies have struggled. Federal agencies are trying to meet the challenge and significant efforts are planned. The 1999 inventory of Federal financial systems reports that Federal agencies plan to substantially upgrade or replace 79 percent of the 1107 current financial system applications. Agencies will rely heavily on the commercial off-the-shelf market for the next generation of systems.

The 1999 Office of Management and Budget and the Chief Financial Officers Council's *Federal Financial Management Status Report and Five-Year Plan* and the *2000 Financial Management Plan* articulate the governmentwide priority to establish financial management systems throughout the Federal government to support fiscal and programmatic accountability. Strategies are to 1) provide a financial management systems environment in which financial systems can be successfully planned, developed, operated, and maintained; 2) establish government systems requirements that support information standards; and 3) improve the availability of systems that meet governmentwide systems requirements. JFMIP provides key building blocks for achieving those goals. JFMIP issues comprehensive functional requirements, tests and qualifies core financial system software for Federal agency use, and provides critical tools through an electronic Knowledgebase to facilitate industry partnerships.

The CFO Council's commitment for developing and using these capabilities is demonstrated by their dedicating a portion of their agency's charge card refunds to support the JFMIP program management office. Starting in FY 1999, at the request of OMB, the JFMIP Steering Committee, and the CFO Council, Congress passed Section 652 of P. L. 105-277, the FY 1999 Treasury and Postal Service Appropriation Act, to fund the JFMIP Program Management Office (PMO). This provision allowed CFO agencies to transfer a portion of charge card rebate funds up to a total of $3 million to JFMIP. This investment enables the retention of a mix of highly qualified staff as well as access to private sector experience through consultants to provide longer term strategic solutions to long standing shortfalls in Federal financial systems. JFMIP has a long history of support and cooperation from all Federal agencies. Similar language was provided in the FY 2000 Treasury and Postal Service Appropriation Bill and has been proposed for FY 2001.

Financial System Requirements

JFMIP has been in the business of issuing financial system requirements documents since the 1980s. The *Framework for Federal Financial Management Systems* describes the Federal agency system architecture as including the *Core Financial System*, managerial cost accounting and 13 feeder systems. The system requirement documents serve many roles. Initially they were developed as guides to help facilitate the exchange of software for common administrative functions within the Federal government. Now these are used to help justify agency system improvements or replacements. These documents also help to organize the private sector market by communicating mandatory functionality that commercial software must be able to provide to Federal agencies, as well as identifying value-added features desired by Federal agencies. Finally, the system requirement documents provide benchmarks for agency compliance under FFMIA and have served as a tool for oversight agencies to evaluate systems.

Upon passage of the FFMIA in 1996, requirement documents existed for the Core Financial System and 6 of the 13 subsidiary systems. Several of those documents needed to be updated to recognize recently enacted laws and regulatory revisions.

Starting in 1998, JFMIP undertook efforts to bring all existing documents up to date and to develop documents for those functions where none existed previously. In 1998, *Systems Requirements for Managerial Cost Accounting* was issued for the first time to address system requirements necessary to support FASAB Standard Number 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government.*

In 1999, JFMIP updated four financial system requirement documents, including *Core Financial System, Human Resources & Payroll Systems Requirements, Direct Loan System Requirements,* and *Travel System.* In 2000, system requirement documents have been issued for *Seized Property & Forfeited Assets System* and *Guaranteed Loan System Requirements.* Also JFMIP is currently reviewing exposure draft comments for *Grant Financial System Requirements* and *Property Management System Requirements* and issuance of the final documents during the summer is anticipated. Efforts are underway to develop Benefit System requirements. Future efforts will be Acquisition System, Revenue System, Insurance Claim System, and Budget Formulation System requirements. Our current goal is to have projects to address these functional requirements underway by 2001.

Production of these documents demonstrates commitment from stakeholder agencies to define governmentwide requirements and help organize standard expectations regarding what financial systems must be able to support. A Senior Executive from the financial or functional staff of a major stakeholder agency leads the project that includes expert representatives from other interested government agencies, the General Accounting Office, the Office of Management and Budget and, in some cases, the private sector. JFMIP staff supports these collaborative efforts.

Core Financial System Testing and Qualification Process

Recently, the CFO Council and the JFMIP partnered to reengineer the Core Financial Systems testing qualification and procurement processes to improve the availability of commercial software that supports Federal requirements and to improve the chances that agencies can successfully implement new systems. Prior to 1999, testing of core financial system software was accomplished in connection with the mandatory General Services Administration schedule for Financial Management System Software (FFMS). Information regarding the testing process was limited. The test addressed less than one third of the existing requirements. Arrangements for the software testing relied upon agency volunteers and other ad hoc approaches. Past experiences indicated that these arrangements were not sufficient to meet the challenge. In 1998, the CFO Council recommended: (1) the establishment of a Program Management Office (PMO) under the JFMIP with responsibility for developing the tools and capabilities necessary to improve financial systems across the Federal government; (2) the separation of the test and qualification process from the procurement process; and (3) the establishment of an electronic Knowledgebase to share information widely.

October 1, 1999, marked the transition from the old process to a new process. The components of this new process are:

- Issuance of up-to-date Core Financial System Requirements, complemented by identification and prioritization of value-added features desired by Federal agencies.

- An open and comprehensive testing and qualification process that tests, in part or in whole, testable mandatory requirements.

- Modification of OMB Circular A-127, "Financial Management Systems" to eliminate the mandatory use of the FMSS schedule to procure core financial systems and require Federal agencies to purchase software that has attained the JFMIP certificate of compliance.

- Establishment of a web-based "Knowledgebase" to share information with all stakeholders on all parts of the process.

The purpose of testing was to reduce the risk to the government, produce useful information, reduce agency test effort and provide critical information to commercial business partners to allow them to be successful in providing core accounting software that meets Federal requirements. Before the first round of testing could even begin, several major tasks had to be accomplished. First the system requirements had to be brought up to date. The Core Financial System Requirements document, issued in February 1999, contains 251 mandatory requirements covering functions of Core Financial System Management, General Ledger Management, Funds Management, Receipt Management, Payment Management, Cost management, and Reporting. About 20 percent of the requirements were new or changed since the last issuance. In addition, 143 value-added features were identified and prioritized by Federal agencies.

JFMIP developed an efficient test of 166 test steps that tests about 91 percent of the mandatory requirements fully or partially. This test was validated with help of the GAO. The test is an open book test. Test data, assumptions, data dependencies, and expected results are published on the "Knowledgebase" for all stakeholders to use. We also published a test trace matrix to fully disclose the relationship between established requirements and test steps. This matrix also identifies limitations of the test so that agencies have full information about the depth of the test and any requirements that are not tested.

As of October 1, 1999, OMB policy terminated the FMSS schedule for new procurements and required Federal agencies acquiring new core financial systems to use JFMIP tested and certified software. At that time, four products were qualified. As of May 2000, nine software products offered by seven vendors have received certificates of compliance. To facilitate agency research, JFMIP maintains a current list of qualified software on the Knowledgebase along with information about value added features.

JFMIP issues a certificate of compliance, which is valid for 3 years for specific versions of COTS packages. The process is designed to ensure that our commercial business partners update their products to meet new requirements. If Federal requirements change during that 3-year period, JFMIP administers an incremental test for the new requirements that the vendor software must pass to retain the certificate of compliance. In 2000, JFMIP is administering the first incremental test to ensure that software can support the Federal Agencies' Centralized Trial-Balance System II—or FACTS II--process for reporting budget formulation data and budget execution data to central agencies.

The JFMIP "Knowledgebase" at: www.financenet.gov/jfmip/pmo.htm, is a rapid and efficient communication, among government and private sector stakeholders. Currently it hosts searchable database information on core financial systems requirements, test materials, reference materials, and best practices. We have had over 37,000 hits to this site in the last year.

Other JFMIP Efforts to Improve Financial Management Systems

In addition to the above initiatives, I would like to highlight three ongoing initiatives where JFMIP is partnering with the CFO Council and other stakeholders to leverage resources and address common financial management system challenges. These include:

- The *Financial System Compliance Review Guide,* jointly sponsored by the CFO Council, the PCIE Federal Audit Executive Council, and JFMIP, is under development to offer a tool to agencies, the oversight community, and the vendor community to help establish consistent expectations and methods to conduct financial management system compliance reviews. The product is designed to help evaluate whether financial systems substantially comply with financial management system requirements that are contained in law and implementing policy to include FFMIA, FMFIA and ITMRA. This guide has been issued as an exposure draft and we are currently reviewing comments.

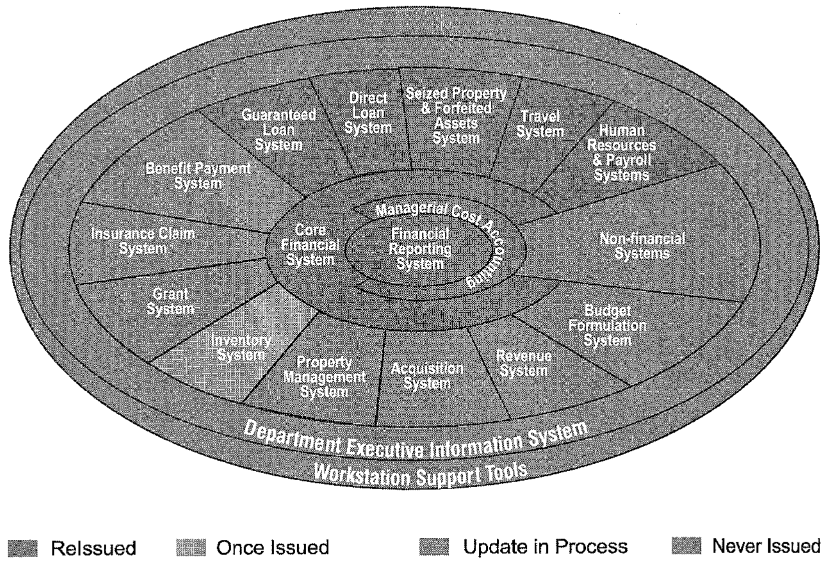
- The "Roadmap Project" is designed to create a framework to manage financial systems change in the Federal government. By September 2000 we plan, in partnership with the CFO Council, to augment the JFMIP

Knowledgebase to include information on the full life cycle of financial management system planning, implementation, and management.

- The Human Capital Project is a collaborative effort by the CFO Council Financial Systems Committee, Human Resources Committee, and JFMIP that is designed to build capacity within the Federal financial management workforce to meet this challenge. Having the right project management and functional skills are essential to transitioning to the next generation of financial management systems.

In summary, the leveraging of resources through JFMIP to provide system requirements, testing, and tools demonstrates commitment among Federal stakeholders to address common system challenges in a cost-effective manner. The short-term payoff has been to reduce agencies' cost and risk in replacing systems. The longer-term payoff will be the implementation of Federal financial management systems that fulfill the goals of FFMIA.

June 2000


Direct Loan System
Seized Property & Forfeited Assets System
Guaranteed Loan System
Travel System
Human Resources & Payroll Systems
Benefit Payment System
Managerial Cost Accounting
Core Financial System
Financial Reporting System
Insurance Claim System
Non-financial Systems
Grant System
Budget Formulation System
Inventory System
Property Management System
Acquisition System
Revenue System
Department Executive Information System
Workstation Support Tools
ReIssued
Once Issued
Update in Process
Never Issued

Mr. HORN. We now move the to the departments. We start with Mr. Thomas P. Skelly, the Director of Budget Service and Acting Chief Financial Officer for the Department of Education.

STATEMENT OF THOMAS P. SKELLY, DIRECTOR, BUDGET SERVICE AND ACTING CHIEF FINANCIAL OFFICER, DEPARTMENT OF EDUCATION

Mr. SKELLY. Thank you, Mr. Chairman and Mr. Ose.

In sum, the Department of Education has not complied with the FFMIA. We have made significant progress, we believe, in addressing some of the requirements, but we are not in full compliance today. I would like to discuss several areas in which we have made progresses and a few challenges we have.

One significant area of progress is that we have developed the remediation plan requirement by the act. We believe it is a good plan. GAO did a report and indicated that it thought if we implemented that plan fully, if we had good success, we would have a fairly good chance of complying with the act. We are about halfway through implementation of that plan, and we think we are on schedule.

A second area of progress, critical part of the plan, was replacing our general ledger system. We had acquired a general ledger system back in 1995. It didn't work. We had implemented in 1998. It didn't do the things we thought it would do, it didn't produce integrated financial statements, it did not generate our statements at the end of the year.

What we did in March following selection of a product that was on the JFMIP schedule was to go out and buy Oracle financial software. We think the Oracle package will do the job for us. We are in the design stage now. We think it will be late 2001 before we have implemented it fully. We are phasing it overtime, not trying to do it all at once, but we think we will meet that schedule.

We did do extensive testing of the product beyond what JFMIP had done to make sure that it could do the end-of-year closeout for us and cover both our proprietary accounts and our budgetary accounts simultaneously.

The third area of progress we have made is to do more timely reconciliations of our data. We are now doing interim statements, and we are also doing monthly reconciliations. Reconciliations and lack of those and the quality of data is the weakness that has been cited by our independent end auditors, Ernst & Young, by the GAO and the Inspector General. To help us expedite our reconciliation process, we acquired some software from a company called CheckFree. It is a software tool that banks use to help them do their reconciliation balances at the end of the day. It has greatly automated our process, and we are doing it much faster than we did before.

Those are three areas of progress, the planned Oracle software acquisition and the more prompt reconciliations, but we do see challenges. Those challenges would include the time that we need to implement this new system, given the complexity of our appropriations.

Our Department of Education has over 200 appropriations, it has 175 programs, we give out $75 billion per year in loans, grants, formula grants, discretionary grants. We have contracts. We have administrative funds. We have a lot of activity going on. We have several, 14 in fact, feeder systems. Those feeder systems, which took a while to get compliant with Y2K last year, are supposed to send in information to our accounting system so we can produce one set of accounting statements. We do think that is a challenge.

A second challenge is that the standards keep changing. They should evolve over time. The world changes, people expect additional data. In 1997, the Department of Education did get a clean opinion. Only three statements were required in 1997. In 1998 and 1999, five were required. We didn't get a clean opinion in 1999 and 1999. We did have to make some additional changes to create those new statements.

Another example of standards changing is direct loans. The accounting standards we got on those run 57 pages.

A third challenge that we have is just the competing times for our demand and attention. We have not just FFMIA, we have the Integrity Act passed earlier, the CFO Act, the GMRA, the Clinger-Cohen Act, and other acts and requirements, things we need to fulfill. We have to make choices about what we do. We have to require resources and apply those.

At the Department of Education we are committed to our remediation plan that involves our successful implementation of Oracle financial software. We think that should lead to integrated financial statements, timely production of data. The new integrated systems plus our increased attention to reconciliation data quality should get us into compliance with FFMIA and address many of our other competing priorities at the same time.

Mr. Chairman, I would be glad to answer your or Mr. Ose's questions.

Mr. HORN. Well, appreciate that.

[The prepared statement of Mr. Skelly follows:]

Statement of
Thomas P. Skelly
Director, Budget Service and Acting CFO
U.S. Department of Education

before

House Committee on Government Reform
Subcommittee on Government Management,
Information and Technology

June 6, 2000

"Oversight Hearing on the Federal Financial Management Improvement Act"

Mr. Chairman and Members of the Subcommittee:

I am here to discuss the progress and ongoing challenges faced by the Department of Education in implementing the Federal Financial Management Improvement Act of 1996 (FFMIA). The Act requires that the Department's financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

The Department does not comply with the FFMIA based on tests conducted by the Department's independent auditor, Ernst and Young, in connection with the audit of our 1999 financial statements. The auditors noted that the Department lacked adequate, integrated financial management systems to prepare timely and accurate financial statements.

In sum, while the Department has made significant progress in addressing the goals of the Act, it has not complied with all of the requirements. However, we have developed a plan that will devote additional investments and effort to achieving its high standards, and the Department has already taken the first steps in the right direction.

I would like to highlight three areas of progress and then note three challenges we face in implementing the Act.

The FFMIA requires agencies to prepare a remediation plan to suggest remedies if they are not in compliance. The Department's remediation plan from July 1999 laid out a three-year timetable for becoming compliant with the FFMIA. In October 1999, the General Accounting Office (GAO) gave us a positive reaction by saying in a report that the remediation plan, if implemented, may resolve our problems. We are now halfway through the plan, and we are on target to achieve all of the steps by the end of 2001.

The key element of the remediation plan was replacing the off-the-shelf general ledger system that was purchased in 1995 before FFMIA. That system, which was only implemented in 1998, had been a significant cause of the Department's failure to get a clean opinion in 1998 and 1999. It did not produce financial statements automatically, and it was not integrated with our other systems.

The purchase of Oracle Financials as our general ledger package this March was a second sign of progress. Oracle is not only a well-respected, national product, it is also the software platform that we use for many of our feeder systems such as student financial assistance and grant payments. Oracle was one of the half dozen products approved for government use by the Joint Financial Management Improvement Program (JFMIP) in October 1999. The Department decided to limit its competition to those products on the approved list, and Oracle was the best fit for our needs. At the suggestion of our Inspector General, we also undertook extensive testing to satisfy ourselves that Oracle could be used to close out the year automatically and prepare all of our financial statements for both budgetary and proprietary accounts simultaneously. Although we are still in the design stage, we are on track for implementation by the end of 2001.

A third area of significant progress has been the preparation of quarterly statements and monthly reconciliations. The periodic reconciliation of balances with Treasury will improve data quality and help us address weaknesses identified by our auditors, the Inspector General, and the GAO. To help us with reconciliations, in August 1999 we acquired a software tool from a company called CheckFree which is used by many banks to accomplish this task. The tool has helped to automate much of the labor intensive process and greatly enhanced our ability to reconcile on a timely basis.

The realistic remediation plan, the Oracle software acquisition, and more regular reconciliations are signs of progress, but there are at least three major challenges to the Department's achieving compliance with the FFMIA for fiscal year 2002. Those are, tight timing given the complexity of our appropriations, evolving standards, and competing demands for time and resources.

While we believe our timetable can be achieved, experience has taught us and others that implementing a new general ledger package can take longer than expected. One major task is to clean up data from old systems that will be inherited by the new one. Starting a new system is easy, if you can ignore everything that has happened before, but the Department will have to continue to track obligations made in previous years under different systems, so data clean-up will be essential. The Department has over 200 appropriations and 175 programs, and these provide funds for $75 billion a year in direct and guaranteed loan programs, numerous competitive and formula grants, and the usual administrative activities such as contracts and personnel. Many of these programs have their own feeder systems which provide data needed for the central financial management system. Because the Oracle software is used as the platform for many of our feeder systems, such as for college student financial aid grant payments, we believe that the system should be flexible enough to accommodate all of the data requirements needed for successful integration. However, our reliance on feeder systems for so many activities complicates that task. Our plan is to phase in the new system, but to have all aspects in place at the end of fiscal year 2001. Slipping even a few months will push us into the next fiscal year.

A second major challenge is evolving or more difficult standards. In 1999, Education was one of 21 major agencies that did not comply with the implementation guidance for FFMIA included in Appendix D of Office of Management and Budget (OMB) Bulletin No. 98-08. Agencies that comply with the Act have been successful in modifying their accounting models to comply with a rapidly increasing number of new or changing financial system requirements, accounting standards, and major technical modifications to what is required for Financial Statement form and content. These changes might seem small, but they can require system changes. For example, in 1997 we got a clean opinion on the three required financial statements, but we had more difficulties in 1998 and 1999 when five statements were required. Another example of changing standards is JFMIP's revised Direct Loan System requirements for managers and auditors, which is fifty-seven pages long and might require us to modify systems.

In dealing with the challenge of changing standards, the Department's main strategy is to put flexible systems into place that support existing Federal Financial Management System Requirements (FFMSR) issued by the JFMIP and OMB Circular A-127, Financial Management Systems. It is our hope that Departmental systems, especially Oracle Financials, will be flexible enough to handle new requirements now emerging and the Department will operate as envisioned by FFMIA by 2002.

We surmise that as changes are made to requirements, products will have to be recertified. However, once in production, if a software product like Oracle is no longer compliant, the Department will have few options to remedy the situation other than to devise "work around" solutions.

The third major challenge is competing priorities for time and resources. The Department, like all Federal agencies, is trying to get a clean opinion on its financial statements while complying with the CFO Act, the Integrity Act, the Clinger-Cohen Act, the Credit Reform Act, GPRA, GMRA, and FFMIA. All of these laws are important, but it is often difficult to make strategic decisions and acquire resources necessary to get them all done. It is not impossible, but it is a challenge.

At the Department, we are committed to the remediation plan that involves successful implementation of the Oracle financial software. That should lead to integrated financial systems and automated statements. The new integrated system, plus our increased attention to reconciliation and data quality, should get us into compliance with FFMIA and address many of our competing priorities at the same time.

Mr. Chairman, that concludes my prepared testimony. I will be happy to answer any questions from you or the other members.

Mr. HORN. Next is the National Aeronautics and Space Administration, Arnold Holz, the Chief Financial Officer. We are glad to have you here again.

STATEMENT OF ARNOLD G. HOLZ, CHIEF FINANCIAL OFFICER, NATIONAL AERONAUTICS AND SPACE ADMINISTRATION; ACCOMPANIED BY KENNETH J. WINTER, DEPUTY CHIEF FINANCIAL OFFICER

Mr. HOLZ. Thank you, Mr. Chairman. Good morning, Mr. Chairman.

Mr. HORN. I might say you are accompanied by Mr. Winter, the Deputy Chief Financial Officer.

Mr. HOLZ. And very fortunate I am indeed.

I am Arnold Holz, Chief Financial Officer at the National Aeronautics and Space Administration. I am here today to highlight the progress and challenges that NASA addressed in implementing the Federal Financial Management Improvement Act. I am pleased to report we are in compliance with the act.

Achieving and maintaining compliance has been extremely challenging. In that regard, we continue to face major challenges. These include the need for strengthened systems and staff capabilities to efficiently sustain compliance and to provide required agency financial management information.

NASA's efforts to achieve compliance with the Federal Management Improvement Act predate the act's enactment. For example, NASA began preparing agency-wide financial statements for fiscal year 1992, several years before required. We obtained our first of six consistent unqualified clean opinions for fiscal year 1994. NASA, like other agencies, encountered and addressed a variety of challenges in obtaining clean opinions and in achieving compliance with the act. The challenges included key cost accounting and property, plant and equipment complications.

Our basic approach follows. We anticipated the challenges, and we started early. We evaluated and tested analytical and process alternatives. We implemented workable improvements. We coordinated improvements with our independent auditor, first the IG, and then later Arthur Anderson, and we disclosed related information in annual reports.

We anticipate several ongoing challenges, two major future challenges focus on systems and staff. NASA's existing systems are decentralized and inefficient. They are not fully automated, they are not fully integrated, and they are not fully standardized. Recognizing these inefficiencies, NASA has initiated a new effort to implement a standard, efficient, integrated, agency-wide financial management system. Based on prior experience, the new system initiative is expected to be extremely challenging.

NASA's staff is the critical element of our success. In that regard we have initiated a comprehensive staff development program to ensure that staff capabilities remain commensurate with the future challenges. Individuals are strongly encouraged to develop individual development plans, and resources have been made available for professional development activities such as classroom training, rotational assignments and other career-enhancing activities.

NASA can point to success in achieving quality reporting, clean opinions and compliance with the Federal Financial Management Improvement Act. Such success was achieved by anticipating the challenges and assessing remedies and actively implementing required supplemental improvements. We plan to continue to pursue and achieve similar future financial management excellence.

Mr. Chairman, that completes a summary of my more detailed statement. I would be pleased to respond to any questions of you or Mr. Ose.

Mr. HORN. Thank you very much.

[The prepared statement of Mr. Holz follows:]

National Aeronautics and
Space Administration

Hold for Release Until
Presented by Witness

June 6, 2000

Subcommittee on Government Management, Information, and Technology

Committee on Government Reform

House of Representatives

Statement by:
Arnold Holz
Chief Financial Officer
Office of the Chief Financial Officer

106th Congress

Hold for Release Until
Presented by Witness
June 6, 2000

Statement of
Arnold G. Holz
Chief Financial Officer
National Aeronautics and Space Administration

Before the
Subcommittee on Government Management, Information, and Technology
Committee on Government Reform
House of Representatives

June 6, 2000

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to appear before you today to discuss the progress and challenges NASA has encountered in implementing the Federal Financial Management Improvement Act (Financial Improvement Act) of 1996. I am pleased to report that NASA complies with the Financial Improvement Act. Nonetheless, we are continuing to improve our financial management systems. This is one of our major financial management challenges.

The Financial Improvement Act focuses on agency financial management systems in three areas--Federal system requirements, Federal accounting standards and the United States Standard General Ledger. NASA's financial management systems substantially comply with Federal systems requirements, applicable Federal accounting standards and standard general ledger transaction requirements. In that regard, pursuant to Federal audit requirements, NASA's compliance with the Financial Improvement Act has been confirmed annually by its independent auditor for the past several years. Most recently, as part of the audit for Fiscal Year (FY) 1999, the independent auditor stated that its tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards or Office of Management and Budget (OMB) guidance. The auditor further concluded that its tests disclosed no instances in which NASA financial management systems did not substantially comply with the requirements of the Financial Improvement Act.

Modernizing and improving our financial systems has been challenging. In particular, NASA's pursuit of an integrated financial management system has been a long-term, extremely difficult undertaking including setbacks. We are continuing to pursue an integrated system because such a system is essential to sustaining compliance with the

Financial Improvement Act in an efficient manner, as well as providing timely, reliable financial management information. NASA's successful performance has only been achieved through the hard work and perseverance of a cadre of bright, dedicated financial management professionals. The remainder of my statement will discuss, in greater detail, the progress NASA has made in achieving compliance, as well as address the recent and future challenges associated with implementing the Financial Improvement Act and our integrated financial management system.

NASA Progress in Achieving Compliance

NASA's efforts to achieve compliance with the Financial Improvement Act predate its enactment. With the passage of the Chief Financial Officers (CFO) Act of 1990, NASA concluded that although the 1990 Act did not specifically require it to prepare agencywide audited financial statements, NASA should do so anyway to strengthen agency financial management. NASA was, and still is, convinced that significant benefits could be achieved through preparation of Agencywide financial statements that would be subjected to rigorous audit, particularly with regard to independent review of financial systems and controls as well as NASA's implementation of accounting standards. (The CFO Act required financial audits of revolving funds and trust funds. Agencywide financial statement audits were required by the Government Management Reform Act of 1994.)

NASA began preparing financial statements in FY 1992. The Office of the Inspector General (OIG) audited NASA's FY 1992 and FY 1993 financial statements, but did not express an opinion on the statements because of a variety of concerns, such as incomplete reconciliations and inadequate documentation for major items of property, plant, and equipment. Through a concerted effort, substantial financial management improvements were achieved and the OIG expressed a "clean opinion" on NASA's statements for FYs 1994 and 1995. Beginning with the audit of the FY 1996 financial statements, NASA contracted with an independent auditor, and has consistently received clean opinions each year.

The achievement of a clean opinion on financial statements and compliance with the Financial Improvement Act require the maintenance of adequate financial systems and the successful implementation of Federal accounting standards. The activities required for obtaining and maintaining a clean opinion on agency annual financial statements also enabled NASA to achieve and maintain compliance with the Financial Improvement Act. In that regard, OMB has established Federal guidance, including key compliance indicators, concerning the Financial Improvement Act. This guidance is provided in OMB Bulletin No. 98-08, "Audit Requirements for Federal Financial Statements." The guidance focuses on the three areas highlighted in the Financial Improvement Act--systems, standards and the standard general ledger. NASA periodically assesses each area.

In the systems area, OMB noted system controls/compliance, system integration and external financial reporting as key indicators of compliance with the Financial

Improvement Act. NASA's management controls and financial systems, taken as a whole, provide reasonable assurance that the objectives of the Federal Managers Financial Integrity Act have been met. In addition, while NASA does not have a single, integrated financial management system, NASA's systems--including supplemental, compensating procedures and practices--substantially and materially achieve Federal requirements. In this regard, NASA reports its financial management systems as a non-conforming, significant area of management concern because the systems are not fully automated, not fully integrated and not efficient. Nevertheless, NASA has implemented compensating procedures and practices that provide appropriate assurance regarding the fundamental completeness and integrity of its internal controls and systems. As a consequence, NASA's system non-conformance is not material. With regard to external reporting, OMB provides that standard budget execution information should be provided in a timely, compliant manner to OMB and the Department of the Treasury, and should be consistent with budget execution. NASA reliably provides timely, consistent and accurate routine and special budget execution data to OMB and the Department of the Treasury.

In the standards area, OMB highlights two areas--unqualified audit opinions on the agency's financial statements and no material internal control weaknesses. NASA has received an unqualified audit opinion on its financial statements for the last six years. In addition, NASA's recent independent auditor's annual reports on internal controls regularly note no material control weaknesses.

In the area of the standard general ledger, OMB's indicators focus on the use of account descriptions, posting rules, and similar factors. NASA consistently provides standard general ledger balances to the independent auditor and OIG. These balances have been audited and determined to fully support the amounts reported in the financial statements. The independent auditor consistently rendered unqualified opinions and the OIG has certified that the standard general ledger account balances support both the amounts reported on the statements and the adjusted trial balances reported to the Department of the Treasury. In addition, the Department of the Treasury regularly reconciles the amounts reported on the adjusted trial balances to NASA's Budget Execution Report that is periodically submitted to OMB.

NASA's ongoing progress related to the Financial Improvement Act required a vigorous, continuing effort by dedicated financial management professionals following optimal NASA financial management policies and practices. NASA's financial management staff encountered and addressed a variety of challenges in preparing annual financial statements.

Recent Challenges

Like other agencies, NASA encountered and addressed a variety of challenges during its statement preparation and audit processes. NASA met such challenges through a variety of remedial activities. Typically, NASA:

(1) identified the key challenges;
(2) evaluated alternative remedies;
(3) tested analytical and other process improvements;
(4) implemented required improvements, including key reconciliations;
(5) coordinated activities with the independent auditor; and,
(6) disclosed relevant information in the annual Accountability Reports.

Below are several illustrative examples of key challenges NASA faced in implementing the Financial Improvement Act and the remedial action NASA took to address the challenge.

- Systems -- NASA's systems provide an example of a key Agency challenge. Achieving compliance with the Financial Improvement Act was not an easy task. NASA's legacy systems are decentralized, non-integrated, non-standard and inefficient. Such systems are difficult to change, replete with potential data inconsistencies, ripe for misunderstandings and miscommunications, and extremely labor intensive. Fortunately, NASA also maintains a rigorous Agencywide financial classification/coding structure and related umbrella system into which decentralized, non-standard systems feed. To ameliorate system inefficiencies, NASA established and monitored numerous reconciliations between Headquarters and Field Center systems and between financial and property, plant, and equipment systems. These non-automated, labor intensive reconciliations were critical to NASA's ability to effectively implement the management improvements identified within the Financial Improvement Act.

- Cost Accounting -- NASA's approach to addressing the new Federal managerial cost accounting standard illustrates another recent challenge. The standard requires agencies to develop new cost accounting capabilities and to report the full cost of agency activities in an annual statement of net cost. This statement was required for FY 1998. Fortunately, NASA had been pursuing new full cost accounting practices pursuant to internal requirements and earlier legislative guidance. In this instance, NASA developed key full cost concepts and practices in the mid-1990's and applied such concepts, with strengthened labor reporting and with NASA's established Agencywide financial structure, to develop and report appropriate net cost statements. NASA not only developed and tested the concepts and related cost finding techniques, but also fully coordinated the analytical practices with NASA's independent auditor. Such testing and coordination were critical to subsequent successful reporting and related audits.

- Property, Plant & Equipment -- Accounting for Property, Plant, and Equipment (PP&E) illustrates how NASA continues to refine its way of "doing business" in the financial management area. PP&E, excluding depreciation, totals approximately $47 billion. Of this amount, approximately $16 billion is held by NASA contractors. Pursuant to Federal policy, contractors maintain the detailed supporting accounting records for such holdings. As noted earlier, PP&E data problems were a major reason the OIG did not express an opinion on NASA's FY 1992 and 1993 financial statements. Through a continuing process of analysis, testing and coordination with NASA Centers and contractors as well as reconciliations, the process for accumulating and reporting PP&E data has been substantially improved. The improvements implemented subsequent to FY 1992 and 1993 not only enabled NASA to achieve a clean opinion, but also positioned NASA to successfully implement the new PP&E standards related to depreciation and deferred maintenance. One key factor in maintaining a clean opinion on the financial statements and, in turn, maintaining compliance with the Financial Improvement Act, is the development, maintenance, and refinement of a strong system of internal controls built on effective policies, practices and procedures. The most important element, however, is the NASA financial management staffs who demonstrate exceptional pride in achieving and maintaining a recognized level of success in the financial management area.

Future Challenges

NASA anticipates several ongoing challenges in pursuing financial management excellence. Two overarching challenges focus on systems and staff.

While effective, NASA's current financial management systems are not efficient, flexible or sustainable. Recognizing the weaknesses of its current financial management systems, NASA initiated a comprehensive program to implement an Agencywide integrated financial management system. This has been a long-term, extremely difficult effort. We now are initiating a project to select and implement an Agencywide commercial off-the-shelf core accounting system. In this regard, NASA anticipates a particular challenge associated with balancing its limited financial management resources between the new system implementation project and continuing financial management operations. NASA plans to address this challenge by carefully managing this transition and temporarily supplementing required resources, as appropriate.

The most important challenge anticipated in the coming years involves people. Sustaining and nurturing the cadre of financial management professionals that has enabled NASA to achieve its progress in the financial management area is critical. To this end, an extensive professional development program has been created. Individuals are strongly encouraged to develop individual development plans, and resources have been made available for professional development activities such as classroom training, rotational assignments, and participation in career-enhancing activities, such as the Chief Financial Officers Fellows program. A formal mentoring program has also been initiated.

Conclusion

NASA can point to successes in achieving quality reporting, clean opinions on its financial statements and compliance with the Financial Improvement Act. Such success was achieved by anticipating numerous challenges, assessing alternative remedies and actively implementing required supplemental improvements. In this regard, although NASA's legacy systems are decentralized and non-standard, the Agency has compensated for system inefficiencies by establishing a rigorous Agencywide financial classification/coding structure and related umbrella system into which decentralized, non-standard systems feed. Nevertheless, maintaining and enhancing these achievements remain a continuing challenge that can be accomplished only by the hard work of dedicated professionals supported by solid financial management policies. NASA will continue to pursue and maintain financial management excellence.

Thank you, Mr. Chairman. I would be pleased to respond to questions.

Mr. HORN. I now yield to my colleague from California, Mr. Ose, for such time as he may consume to question the witnesses.

Mr. OSE. Thank you, Mr. Chairman. I have a number of questions, and I am going to move through them as methodically as I can.

Mr. Holz, you have achieved compliance with the FFMIA, and you have a clean opinion. What I am trying to understand clearly from an in-the-field perspective is how does compliance with FFMIA work hand in hand with achieving or receiving a clean audit opinion? Just give me some sense of that, if you would, please.

Mr. HOLZ. Yes. I would like to use the word framework sometimes. Achieving a clean opinion requires that financial data must be presented fairly in accordance with generally accepted accounting principles. The act requires, among other things, adequate financial systems that produce timely, accurate, reliable financial data and adoption of Federal accounting standards. Compliance with these FFMIA requirements fully supports the preparation of financial statements that are accurate and reliable and consistent with Federal accounting standards, thereby facilitating the receipt of a clean opinion.

Mr. OSE. I know that Mr. Skelly referenced this not only in his statement but also his written statement. NASA's books, if you will, you check them against the Treasury frequently, infrequently? On a periodic basis, how often do you reconcile?

Mr. WINTER. Monthly.

Mr. OSE. How long did it take you to get to that? In other words, have you been doing that forever?

Mr. WINTER. Yes, we have been doing that for years. But the initial reconciliations were not as clean as the ones we are in now.

Mr. OSE. So it is an incremental process?

Mr. WINTER. Yes.

Mr. OSE. Mr. Skelly, at the Department of Education in particular, the greatest challenges that you face are what? I read the part about the Treasury number and all that, but what is your biggest challenge there?

Mr. SKELLY. The biggest one is probably just the time, the time it will take us to try to get this new system, Oracle, up, while we are trying to do other things at the same time. We have, again, a very complex set of accounts. We have over 200 individual appropriations that we have to track, a number of different programs. We have feeder systems, for example, that provide us data from the guaranteed student loan program or the direct student loan program, from our impact aid program. The data in all those systems is not necessarily good when we get it, so it requires going back to the folks who work with those systems and making sure we have the best data possible. It is not easy to just push one button and get all the data from the 14 feeder systems and have it feed into the general ledger systems so we can produce our automated systems.

Mr. OSE. We are going to have to break this down a little bit, because you are going to have to speak—you are going to have to lower your intellectual level when you speak to me. Break it down into smaller words, if you would.

What I understand you to be saying is that DOE has a system, Oracle, that it has purchased to replace a similar system that it purchased in 1995 and that the pieces of your books that feed into that don't necessarily have the same architecture in their systems.

Mr. SKELLY. That is true.

Mr. OSE. OK. Now, what is it that DOE is doing to reconcile that specific issue? In other words, are you going backward down the chain to standardize the systems, or are attempts being made in a different manner to make sure that the things recognize them?

Mr. SKELLY. We are trying to do some of both—from the bottom up and from the top down. It is a coincidence, almost, that the Oracle software is the same computer platform that is used already for our student financial aid programs.

Mr. OSE. That is good planning. That is not a coincidence.

Mr. SKELLY. That is a very long story. But it is also the software that was used for some of our financial data that is in our grants payments system. So you have two of these feeder systems using the same software, so it will make it relatively easy, we hope, to have standardized accounting coding when we do tie all of the systems together.

Mr. OSE. In terms of—if full compliance has a value of one, how far along are you—0.5, 0.7?

Mr. SKELLY. There are three key elements that the act requires. One is that we comply with Federal financial management systems requirements, a second is we have to meet all the Federal accounting standards, and a third is that the U.S. general ledger at the transaction level is something we comply with. I think we are halfway there.

Mr. OSE. On an overall basis?

Mr. SKELLY. On an overall basis.

Mr. OSE. Let me shift, if I may, to Mr. Gotbaum. I want to talk for a minute about the remediation plans. The act itself is very specific about when a remediation plan is supposed to be delivered and the like, and we do have some apparent problems by virtue of the reports we have received on the opinions in different agencies.

In terms of the remediation plans, it is my understanding that only 3 of the 21 agencies met the deadline in September for submitting their plans. What I am curious about is what is OMB's approach to addressing that problem so that such remediation plans are submitted timely?

Mr. GOTBAUM. Mr. Ose, if I communicated that in my statement, that is not true, and it is a disservice to the agency.

Mr. OSE. Go ahead.

Mr. GOTBAUM. Most agencies do not comply with FFMIA. If they don't, as the law says, the agency head is required to develop a remediation plan and submit it to us. All of the agencies that do not comply with FFMIA have submitted to OMB remediation plans. Some of those remediation plans are documents that I would be comfortable showing before this committee; and some of those remediation plans, frankly, need a little remediation. But just to be clear, every agency is complying with the procedural requirement of the law that if they are out of compliance, they submit to us a plan.

Just to finish the point, some of those plans talk about compliance within 3 years, and some of those plans are honest and say this is going to take longer than that. For example, the Department of Defense, which we all recognize is our largest management challenge, it makes no bones about it. They say we are working to integrate our systems and we are working to get rid of legacy systems and both modernize and consolidate at the same time; and they, to my view commendably and honestly, say we are working on this as fast as we can; it is going to take longer than 3 years.

So we have in-house at OMB remediation plans from all but five agencies. Those are five agencies that say that they are in compliance with FFMIA.

Mr. OSE. Let me rephrase my question. You have got remediation plans submitted from all the agencies. The act talks about a specific time line during which those plans should be submitted. If I could be more specific, how many of the agencies have submitted their remediation plans on time?

Mr. GOTBAUM. My understanding, Mr. Ose, is that for those agencies that are required to have submitted their plans by now have done so. Because the law, as you know, has this architecture where the agencies develop a remediation plan and submit it after they receive their audits. For example, for fiscal year 1999 there are agencies for which the deadline has not yet come; and we have not yet received plans for those agencies. Based on fiscal year 1998, everybody who owed one sent us one.

Mr. OSE. I am trying to get to the September deadline. If I understand correctly, and then I appreciate the clarification, for the deadline that passed September 30, 1999, of the 21 agencies that were supposed to submit remediation plans, only 3 did on time. You may have received them since. I am trying to make sure I understand that.

Mr. GOTBAUM. Mr. Ose, I don't want to mislead you. Maybe the best thing, if I may, is to task us to list agency by agency when a report is due, and whether we have received it. Because since the act talks about submitting a remediation plan after you receive your audit and the audit is due March 1, we are right now in the 4-month window between March 1 and the time when we expect to receive fiscal year 1999 remediation plans. Mr. Horn will be amused to note, for example, that the Department of State, which has yet to produce an audit, has produced a remediation plan. So in general we have received them.

If I may, with the forbearance of the committee, let me submit for the record a list agency by agency of when the effective deadline is and whether we have received it. Would that be helpful?

Mr. OSE. If you could do that, for instance, by year, like 1998, 1999, that way we could get some sense of progression, if you will.

Mr. HORN. Without objection, that presentation will be put in the record at this point.

[The information referred to follows:]

FFMIA Remediation Plan Status

Guidance for preparing remediation plans is included in OMB Circular A-11, which requires plans to be submitted with the agency's initial budget submission in September. On occasion OMB examiners will request agencies to submit supplemental information, such as these plans, later in the budget cycle (October or November). Remediation plan submissions for deficiencies identified in the FY 1999 reviews are not included in this table as they are due in September 2000.

	Plans Submitted to OMB	
Agency	**FY 1997 Due September 14, 1998**	**FY 1998 Due September 13, 1999**
Department of Agriculture	September 1998 (updated March 1999)	January 2000
Department of Commerce	September 1998	January 2000
Department of Defense	October 1998	January 2000
Department of Education	July 1999	October 1999
Department of Energy	Compliant	Compliant
Department of Health and Human Services	September 1998	October 1999
Department of Housing and Urban Development	March 1999	September 1999
Department of Interior	September 1998	September 1999
Department of Justice	September 1998	October 1999
Department of Labor	September 1998	November 1999
Department of State	Plan Not Submitted	March 2000 (includes FY 1999 remediation plan)
Department of Transportation	September 1998	October 1999
Department of Treasury	Departmental plan not submitted (Portions provided in September 1998)	Plan not submitted. (Portions provided in draft during January 2000.)
Department of Veterans Affairs	September 1998	September 1999

Agency	Plans Submitted to OMB FY 1997 Due September 14, 1998	FY 1998 Due September 13, 1999
Agency for International Development	December 1998	December 1999
Environmental Protection Agency	March 1999	Draft Plan Submitted*
Federal Emergency Management Agency	Compliant*	Compliant*
General Services Administration	Compliant	Compliant*
National Aeronautics and Space Administration	Compliant	Compliant
National Science Foundation	Compliant	Compliant
Nuclear Regulatory Commission	September 1998	September 1999
Office of Personnel Management	Compliant*	Compliant*
Small Business Administration	March 1999	Relying on FY 1997 Plans
Social Security Administration	Compliant*	Compliant*

* The agency CFO or other management officials determined that the agency is in substantial compliance, notwithstanding the view of the financial statement auditors. However, the agency is addressing the auditor's findings in its financial management improvement plans.

Mr. OSE. Mr. Steinhoff, let me try it with you here on this. In terms of this process on the remediation plans that have been submitted, are we complying in a timely fashion? And if we are not, what additional efforts do you believe OMB could be doing to ensure that such plans are adequately designed and timely submitted?

Mr. STEINHOFF. With respect to whether they are on time or not, we did look at the fiscal year 1997 submissions. We are now looking at the fiscal year 1998 submissions and will be reporting according to the act by October 1 of this year.

There were several that did not in the past submit remediation plans on time, State being one, I believe it is now in, but State did not file a remediation plan until recently. Three others for which management did not agree with the auditor FEMA, SSA and OPM—did not in fact file remediation plans, to my knowledge.

These plans are important. I worked very closely with Senator Brown and his staff when he was fashioning this bill. He was a CPA as well as a lawyer, and he knew the importance of the underlying systems. And he knew, getting back to one of your previous questions, that you could attain a clean audit opinion by going through heroic efforts, such as ad hoc procedures, to compile numbers, but not have good underlying systems, which is the end game, which is what business expects and what world-class organizations want to have on a day-to-day basis. So he put in place this mechanism to report back on the underlying systems.

It was expected that the remediation plans be very important, and it is key that people get behind those plans and do a couple of things: One, make a determination whether or not the agency involved really has the capacity to carry out the plan. Do they have the qualified people? Do they have a disciplined process in place? Are they making sure they go from A to B before they go to C? Are they following Clinger-Cohen? Two, it is very important that milestone dates be provided. And perhaps rather than once-a-year reporting, in this case about 1-year lag time, you would have periodic reporting, perhaps once a quarter, where agencies are showing how they are meeting certain milestones.

Developing systems is difficult work, as I mentioned before, heavy lifting. The experiences of the past have not always been good.

People do go in optimistic. I am wishing Mr. Skelly well, but the previous team at Education also thought they were going to get to the end game back in 1995, and they didn't. It is a tough job; and it is very, very key that these issues be really kept at the forefront, that people focused on progress on a regular basis, and that there be clear accountability for results.

Mr. OSE. I want to diverge a little bit from my questions here, Mr. Chairman, if I may.

I think the point Mr. Steinhoff is making is particularly apt as you look at his first point in terms of an agency's ability to comply, without being judgmental about their intention but the ability. If I could read between the lines, one of the difficulties we have, it seems, is that we have people who while seeking the objective may not have, for instance, the training they may need in this particular area and then we get caught in this little box.

If I could, I would like to suggest perhaps some future point maybe we want to look at the training that we provide within our auditor corps as just a standard operating question.

Mr. HORN. I think that's an excellent idea.

Mr. OSE. Let me go on, if I can.

Mr. Gotbaum, going back to the 3-year time line, the act requires the substantial—the act requires that if an agency cannot be in substantial compliance within 3 years from the date of a determination, then that agency must specify its most feasible date by which compliance can be met.

My question is: What agency currently is identified as having the latest compliance date and what is that date?

Mr. GOTBAUM. I think, Mr. Ose, the agency that all folks agree is the furthest from this goal, including that agency itself, is the Department of Defense. And as I mentioned in my oral testimony, they honestly cannot give us a date that passes muster with them, much less with me or Jeff Steinhoff, as to when they can do this. What they have done is they have said, "Here is our plan for consolidation of systems and for modernization of systems for the next 3 to 5 years," and they have laid that out before us.

That's a case where we actually meet with them, how often, once a quarter at this point?

Mr. STEINHOFF. Probably every 2 months.

Mr. GOTBAUM. OK. We and GAO meet with them, in effect, to say how is it going? But they make no bones about the fact that they have so many systems, such a large consolidation job, that they can't do this within the 3-year timeframe. There is always a judgment, sir, you make about how you use a deadline.

Our view, and it is controvertible, is that we use a deadline to encourage, to nudge, to make sure that people, in fact, are doing what they need to do. So what we have said to the Department of Defense and to other agencies on their remediation plans is tell us what you think is realistic and work at it.

We have discovered, even with agencies that are really good that it takes time. For example, Arnie Holz and the folks at NASA, who are very good, and who have done a terrific job, in the process of their systems modernization had to start over again once, at least once.

So what we find is that it is important, that there be continuing pressure and oversight from you as well as from us. That's the reason why we think this hearing is so important. It is very hard to get a time line on a plan that you can absolutely rely on when you are talking about installing a system.

So what we do is we say: give us the plan and report to us periodically about it.

We think that's the most effective way to get progress.

Mr. OSE. If I could just offer one observation. NASA has a system that—excuse me, their system reports really are a function of, by the testimony, a nonintegrated financial system, much as you have just described. Yet, they are in compliance.

Now, the question I have is, are the programs so big at some of these other agencies that we can't get there or do we want to take Mr. Holz' team and bring them over here and set them to work on that?

Mr. GOTBAUM. Actually, you should know, Mr. Ose, what the folks at the Department of Agriculture did on this. It is very commendable, because as I am sure you know there is a history in the Federal Government of "not invented here" so that each agency thinks their problem is unique. But very commendably the CFO of the Department of Agriculture, Sally Thompson, saw a team in the Internal Revenue Service that had just implemented a new system. Obviously, the IRS has its own problems and its own challenges, but they had implemented one system that works over there and she moved them lock, stock and barrel over to the Department of Agriculture to install their system.

Mr. OSE. Did it work?

Mr. GOTBAUM. It is being implemented. So it is too soon to say. It is too soon to say. They are working on it.

I think the fairest thing to say, Mr. Ose, is that since organizations outside government have, in fact, implemented financial systems. This was Jeff Steinhoff's point about world class finance. Organizations outside government have implemented financial systems that are integrated and do provide data reliably. It can be done.

In the Federal Government, because of our tradition of stove-piping and decentralization, it is harder. In the same way that over the past 10 years we got financial systems where they didn't exist before and now we have clean audits in half the agencies, we can do this; we can get there.

That's why, as I said in my testimony, what this requires from you all is a combination of both patience and pressure. This is not a case in which an agency is going to be able to, in most cases, check the box and convince either us or you that they are doing the right job or they are not doing the right job. This is a case where time after time, periodically, you need to call folks forward as we do, and say what have you done? Because some of those times it will be like NASA where they comply with FFMIA but still have a ways to go. Other times they will be like Education, where they do not comply with FFMIA but, again, they are trying to install a new system.

We have no guarantees and there are no guarantees that the system that NASA is putting in now or the system that Education is putting in now will at the end of the day work the way we want it. This is not like Windows 95 where you just put it in the machine and boot it up.

So what we think is important is that they work at it seriously, and in most cases they are. It is important that they know that we are watching and that you are watching and that, as Jeff Steinhoff suggested, that they report on it periodically so that the pressure stays on.

Mr. OSE. Let me, if I could then, hijack your point then and go to Mr. Holz and make the point that while NASA doesn't have a single integrated financial management system, you are in compliance with the act and, as I understand it, you have a clean opinion.

Now, I am tempted to ask, how could this happen?

Mr. HOLZ. That's a good question. Each year, as part of its process, as part of its ongoing process, NASA has to match up its systems and processes and its policies against criteria that are established. I guess pursuant to the act and with OMB the auditing standards, we have to apply against those criterion to determine whether we are substantially in compliance or not. The mechanism provides for substantially in compliance.

We are substantially in compliance so we meet that test. About you are—and we do have good policies and procedures and we have put in compensating controls and processes to make sure that our nonintegrated systems can provide the information necessary.

NASA has all kinds of systems providing all kinds of data at many different levels and details to support management but it is not integrated and it is not standard across the agency.

Again, the point is that we meet the test against criteria for substantial compliance. Do we want a fully integrated financial management system that applies standard processes in software and transactions across the agency in an efficient, timely fashion? You bet we do.

Now, to get that is, in itself, a very significant challenge from several perspectives. One, it is a very difficult management challenge because it requires change. You are talking about changed management. It is not, as my colleague here mentioned, it is not just a matter of pushing a button. You cannot understand—no, you can understand, you need to understand the difficulty that changed management requires as you move from typical legacy systems, which were entrenched in everybody's mind, and move to a more state-of-the-art with all of its complexity in order to get the benefits that you choose.

So let's see, where was I going? One was the management challenge and the other—I think the other, frankly, has to do with the Federal Government is evolving rather rapidly in the ability to acquire appropriate, adequate systems that work. You couple together the currentness of the emerging technology that's coming available through new software products, along with the changed management, to fit yourself back into that software in your business processes, you couple that together and that is an extremely serious, difficult challenge to overcome. As good as we are at NASA, as good as we are at NASA, I don't want to underestimate the complexity of that challenge.

Now we are going to work that management challenge because we want an integrated system that provides more timely data. But in terms of your question about compliance, that's how we got there. It is a question of matching up against criteria provided in the act and in the auditing standards that allow for substantial requirements—substantial compliance.

If that language was not there, we would have difficulty with it. But we are able to achieve the annual audited financial requirements. We are able to track our transactions back through a standard general ledger process. Our systems are nonintegrated but we have compensating controls in place.

We have good, strong, financial management policies which we follow and enforce, and if you will let me have one more minute here, I want to go back to a word that I think Jeff Gotbaum used in the beginning when he enumerated about four things.

Jeff, was the first word "intensity?" I wrote it down, and I think it was intensity. If not, intensity is important because you need an intense and concentrated, clear focus on what you are trying to accomplish.

The other thing is, that Jeff mentioned, was difficult. It is difficult. It can't be business as usual. To get clean opinions takes a lot of hard work by a lot of smart people, and you have to work at it every day. You have to work at it every day, whether you have good modern systems or whether you don't.

So, geez, I have given you a long answer to your question. Well, I am fired up. I love this work. I have been doing it all my life.

Mr. OSE. Your answer actually begs a question that we all have, is that when do you expect NASA to have a single integrated financial management system?

Mr. HOLZ. Well, Jeff mentioned we started down this road before and frankly we were unsuccessful because the software that we had acquired couldn't measure up and do the job. So we are in the process of getting out of that and we are revectoring into a new initiative where we are going to use the JFMIP schedules and processes.

I made a mistake once before about saying when we were going to do it and I am not going to do that again. The lessons learned, we are going to crawl before we walk. We are going to test and proof before we buy. We are going to run prototypes. We are going to get down to a software that's going to work for this agency. Core financial is the primary No. 1 thing we are going to do. The other functions are going to be discrete activities that will tag along. We are going to take this overly complicated process and make it as clear, focused and simple as possible and we are going to push until we get it, but basically we are going to buy software that works. And if it doesn't, we are going to mitigate our risk by keeping it incrementally small until we prove it and then we are going to roll it out across the agency.

We have 10 centers, 10 different cultures at work here, and the challenge will be to hold all that together. But we are going to do it based on proven software and techniques, not unproven. A little different than what we did before.

Mr. OSE. I can understand your reluctance about the date. Let's explore this a little bit further.

Of the 10 centers that you have, how many centers per year are you bringing into the fold, so to speak, for standardizing the approaches?

Mr. HOLZ. The first thing we want to understand, simply, and understand I am going with you here because I believe in what we are doing and yet I am very concerned about the challenge and I want this to be a success story in the end. My good colleague here, he talked a little bit about he was getting into things like conversion issues, cleaning up data, turning on new systems. When you do that, experience would tell me you have a good year or two of shake-out.

Mr. OSE. Per center or overall?

Mr. HOLZ. Per implementation.

Mr. OSE. All right.

Mr. HOLZ. A lot of that depends on—I mean, if you have a very small organization, one location, you are in control of everything and it is very neatly packaged, I would say a year to 18 months before you are done, before you get through a complete cycle, shake out all the difficulties and then have a good closing procedures.

You multiply that times 10 complex arrangements, you better know the results of the first 1 before you start down the other 9 because you could create utter chaos and loss of control. One thing we are not going to do is lose control.

So we are going to do it in a pilot center. We are going to make sure that we know we have this thing adequately under control, and then based on what we learned from that first conversion and implementation at that pilot we will then build that experience into our scheduling and process.

Mr. OSE. Is the pilot conversion underway?

Mr. HOLZ. No, because we are in acquisition right now. We are beginning to go down the acquisition process.

Mr. OSE. Have you started the testing of the acquired model yet?

Mr. HOLZ. Our process will be to down select from a number of— I don't know if my terminology is right here. I am not a procurement person so I will do the best I can, but we are in the process of going from the several that are on the schedule down to three, and then we will dig further into those three and go to two and then we will configure, test and prove the two and then we will get to one. When we get to the one, that's the one we will pilot.

So the process is——

Mr. OSE. When do you think you will get to the one?

Mr. HOLZ. October. We will probably have a contract by November, right around the end of October.

Mr. OSE. Of this calendar year?

Mr. HOLZ. Yes, sir. Once we know that one, that's the one that's going to be standard throughout the agency.

Mr. OSE. Then from there you roll it out to one of the centers to test?

Mr. HOLZ. We will start at one center and then we will get into implementation at that center and then, based on what we learn from that, we will establish a roll-out schedule for the rest of the agency. It is not going to take forever but I am not going to tell you it is 2 years either because I just don't know yet.

This is not to be fooled with. You are talking about the fundamental internal accounting controls that affect disbursements and moneys pursuant to appropriations. You have to be very careful that you don't lose the integrity of your system. You can easily do that if you make it too big too fast.

Mr. OSE. If I understand——

Mr. HOLZ. That's just my perspective here based on some years of having done this effort.

Mr. OSE. I am trying to synthesize your comments into one timeframe, if I can, and that is that commencing in October or November the selected system will be rolled out to a center, 1 of your 10 centers; that it will take somewhere between 12 and 18 months to fully implement that and take it through a cycle and test it; and that subsequent to that opinion on the results of that pilot, it would then be spread to the other 9 sites?

Mr. HOLZ. I don't think it will be as serial as you described it, but you have the general—you have the drift of it but I don't think it is going to be as serial. In other words, we are not going to wait until the end to make the decision about No. 2 but we will be enough into it that we will have the comfort level that yes, A, this is the package; B, it is implemented within a reasonable timeframe; and, C, that we will not put the agency at total risk by doing it. We will have a sensible plan organized to a rollout that makes sense as fast as we possibly can achieve but with good information to back that up.

In the meantime, we will continue to press forward with unending intensity to maintain our clean opinions and keep our compensating processes in place as we migrate from an older, inefficient way to a much newer and better way.

Mr. OSE. I want to compliment NASA on the approach. I mean, I just—I would tell you that if I couldn't close my books on a monthly basis, I went back to a weekly basis and I will guarantee you every business has that. There were times when I couldn't close them on a weekly basis and I had to go to a daily basis just to correct the thing. So I appreciate the—and mine was a very small business, so I appreciate the difficulty that you are facing and the serious effort that you are putting into it.

I want to go back for a minute, Mr. Gotbaum. The comment was made that, my recollection, it is just tickling my brain, is that in most cases agencies are working seriously to meet FFMIA requirements, which says that there are some that are not.

My question is: Which agencies are not—were you referring to by exclusion as having not being—how do you even say this? Which agencies were you referring to as working—or not working seriously to meet the FFMIA requirements? It is the "in most cases" thing.

Mr. GOTBAUM. Mr. Ose, the last time I testified before Mr. Horn I mentioned that one of the things that we at OMB tried not to do was to hold examples of public criticism out. What we find is that for our function, which we know is different from your function, the process of public criticism by OMB is, less effective than the process of private criticism.

So if I could——

Mr. OSE. Let me rephrase the question. Which agencies would you suggest that Mr. Horn and myself and other members of this committee particularly focus our interest on?

Mr. GOTBAUM. I am not sure, Mr. Ose, I can answer the question in that way. What I would like to do, if I could, is when we come back to you on who has provided what remediation plans on a timely basis, I think you can get a sense then of who is paying attention to this and who is paying less attention.

Mr. OSE. Before you leave that point, I want to make sure I understand. When are we going to have that report or that information back?

Mr. GOTBAUM. I am going to try to do that one quickly.

Mr. OSE. Does that mean next week, a month?

Mr. GOTBAUM. Yes.

Mr. OSE. OK.

Mr. GOTBAUM. But I want to make the basic point, which is that we don't find that most agencies don't care about this, and I don't want to leave the committee with that impression. Most agencies are working very, very hard to do this.

Now, part of the reason they are working very, very hard to do this, interestingly enough, is because of the pressure provided by you for clean opinions.

Mr. OSE. My question is, when you said most agencies are working very, very hard, it means that some aren't. So you are going to report that back to us some time in the next——

Mr. GOTBAUM. We will report back to you which agencies have turned in remediation plans on a timely basis and which ones haven't.

But the point, Mr. Ose, that I want to make is that we find that most agencies really are devoting very substantial resources to modernizing their financial systems right now. There are some, and we should be honest, you are our committee, that during the Y2K effort put a lot of other IT work aside, because if they blew Y2K they were going to shut their agencies down. So there are agencies which are now moving from the efforts on Y2K to upgrading and improving financial systems. There are a fair number of them in that situation.

The point that I want to make is that there is no neat touchstone. There is no neat box that you can check or not check that says whether an agency does or does not have priorities.

Just to give you some for instances: the Department of Labor, which is not FFMIA compliant, is working hard now on installing and improving a new H.R. and personnel system. That is the Department of Labor. It cares for them intensely, etc.

This is something which matters to us and which Arnie would tell you as a member of the CFO Council that the CFOs say. I don't think I could say publicly or privately, and I don't believe that that is a statement that modernizing their core system is less important. I don't think that. I think what that statement is that working on their core system and installing a new personnel system is the right balance of priorities for them.

So, Mr. Ose, I want to be quite clear that what we get from agency after agency after agency—and we meet with all of them that are not compliant—is that they are, in fact, working on this. I think if you asked GAO this question they would confirm that we get modernization or improvement efforts in every agency we talk about. Whether those efforts are going to fill the bill in the timeframe is unclear. That's a different story. That's the reason why I think it is important that we recognize the need for pressure on your part and the need for the fact that this is going to take years.

Mr. OSE. I appreciate the clarity with which you are covering the subject. I can assure you that there are at least two members of this committee who wish to be very clear that we are going to get these books in order so that they can get clean opinions. If that's the pressure you wish to have us bring to bear, I can guarantee you it is going to be there.

Mr. GOTBAUM. That's just fine.

Mr. OSE. Now, if I may, I just want to come back that I look forward to your report in terms of that information that we just talked about.

Now, Ms. Alderman, I want to ask you a couple of questions having to do with JFMIP. Can you elaborate on what the role of the program is in terms of improving the Federal financial management systems? What is the objective here?

Ms. ALDERMAN. There are two principal roles with respect to financial systems today. The first is, in statute and OMB policy, we are responsible for issuing the system requirements documents. These documents, once issued, represent the baseline requirements for a function that all Federal agencies must meet and they capture laws, governmentwide regulations and so forth.

That is the one and the longer standing responsibility of JFMIP.

Commercial providers of services look at these documents to understand what the Federal agencies need as a baseline. Getting these documents up to snuff, getting them modernized to reflect current requirements, has been a very strong push in the last 2 years because there are so many agencies that now have to replace their systems. Getting requirements out in front of this wave has been a major undertaking and one that has been participated in by the Federal agencies in leadership positions who need to benefit by these documents. That's item No. 1.

The second area has been the requirements testing and qualification process for core financial systems. Federal agencies that bought systems from the mandatory schedule prior to 1999 did not really know, in any depth, how those softwares were tested. They held assumptions that those products that were on the GSA schedule met the JFMIP requirements. We did update those core financial system requirements in 1999 ahead of the new testing process. Of the 251 mandatory requirements about 20 percent of the baseline changed to either new or changed requirements. That is indicative of the amount of legislative changes, changes in reporting requirements, and changes due to new accounting standards since 1995.

So the testing process now is totally in the open domain. It was developed through a consultative process. We put the test out there with the expected results and all the test setup data. It is an open book test for vendors. Agencies know how the test is conducted. They can see the results of the test for vendors who pass the test.

I will tell you that all the vendors whose products have received certificates of compliance were on the old schedule; but not the same versions of the software. I will tell you that every vendor had to make significant improvements in their software to pass the test.

So this is an example of really quality assuring at a baseline level the products that Federal agencies use. So that is item No. 2.

Those two items for core financial systems are not sufficient. They are necessary for success but they are certainly not sufficient. All those products that have passed the test, that means they have baseline functionality. They can do Federal reporting. They can do the proprietary and budgetary accounting correctly. They can compute prompt pay correctly; these types of things are federally unique requirements.

That doesn't mean that the architectures are all the same, the IT architectures. It doesn't mean that the value added features are all the same. It doesn't mean that the user interfaces, or how difficult they are to use, are all the same. It just gives a list that Federal agencies can use to do gap analysis and make the best choice. It is a prequalified set of products to meet their agency needs.

It is the beginning of a process, not the end, for agencies.

Mr. OSE. You have just touched on something that I have actually been reading quite a bit about and that's the IT architectures of the different systems. I am diverging a little bit from my questions here so we are going to make this up as we go, but you brought it up, not me.

Ms. ALDERMAN. I probably got myself in trouble, too.

Mr. OSE. How large of an issue does the IT architecture question pose for the different agencies? That is, when we go to the approved systems and this agency goes with this system and that agency goes with that system, in terms of the overall level of communication, how large of an issue is this?

Ms. ALDERMAN. OK. I would first make a disclaimer that I am not a computer scientist.

Mr. OSE. Ms. Alderman, you brought this issue up.

Ms. ALDERMAN. But I will tell you that these products that we have evaluated have—for one thing, the old installed base that Federal agencies have are mainframe. Every single product that we have qualified to date has either been a client server or a Web-enabled product. So the skill sets from the old systems to the new systems are different.

No. 2, some of these systems are more scalable than others. Some of the products are well designed for a small agency with few simultaneous users. Others, if you try to do that, the system does not have adequate processing time. They are too slow. So those are different types of issues.

So we know that agencies have to do a careful review of whether product X fits on their platform, their data bases, and are scalable to their needs.

Now, JFMIP can't do that for them. We cannot prequalify that for them, but we tell them they really have to focus there because if they don't they will have something that doesn't respond timely; doesn't meet their operational requirements for information.

Mr. OSE. You talked about a Web-enabled system. I want to make sure I understand what that is. I have some sense, but give us some sense of what you mean when you say a Web-enabled system.

Ms. ALDERMAN. What that means is the system may be designed to be centrally managed and accessed through browsers as opposed to hosted on a desktop. The client server sends and is operated from there.

Mr. OSE. You would have an intranet, if you will?

Ms. ALDERMAN. It relies on a certain type of communications infrastructure and it does pose other issues in agencies who implement them, such as security.

Mr. OSE. Security. I have that question down here. So we will get to that one.

Mr. HORN. Could I interject a question at this point?

Mr. OSE. Certainly.

Mr. HORN. I ask the question to what degree are people getting things off the shelf and making them work?

Did you learn anything from that that you might want to use at NASA, Mr. Holz? I am just curious.

Mr. HOLZ. Well——

Mr. HORN. Like the checkoff?

Mr. HOLZ. The real benefit to the software vendors because they are making a significant—is that better? Sorry. Thank you.

The real benefit to these software vendors is, and to the government, is to not only have standard practices in the agencies but to use software consistently—you want to go out and buy a license. You don't want to be changing code. If you get down into software and start customizing it to meet fairly unique requirements you are going to run into trouble because you will be into a development process pretty quick, faster than you can probably know it, and you want to avoid that if you can.

So under the initiative that we are doing we are looking at best practices, best business practices, and then we are going to retrofit ourselves into those best practices and we will only look for the software to solve those kind of problems for us.

If there is some kind of a unique thing to NASA that we have to do, we will do it outside the realm of that. We are not going to go in and change software.

Is that partially responsive, or no?

Mr. HORN. Does the CFO Council get into this when you have monthly meetings?

Mr. HOLZ. I would like to defer more to Josh on that subject. I know we have committees that are looking at software.

Mr. GOTBAUM. Yes, the CFO Council has a couple of committees. The systems committee is the one which deals with this most frequently. As you know, Mr. Chairman, the way the CFO Council works generically is when there are issues that CFOs recognize are common issues, we spin off some project or effort, etc., to do so.

This may be doing a disservice or paying a compliment to JFMIP, but I view the project management office at JFMIP and their work over the last 3 years as a collaborative effort with the systems committee of the CFO Council: to elevate, first of all, by putting up a set of standards, which they are doing. Second, by setting up common testing procedures of commercial systems, which they are doing; and then the third part, which they don't advertise quite as broadly but which in my view is at least as important, is they provide an informal "nerve net" among agencies about experience across agencies. And so when an agency is saying I am thinking about doing something, the JFMIP staff knows, "Yes, I had tried that and it didn't work;" or, "Yes, the following two agencies have had experience with that vendor and you have to watch out for X, Y, and Z." So there is information sharing and a collaborative process and it works throughout the JFMIP. Since we want to give some credit where I think it is appropriate to note that the systems committee of the CFO Council, which has been very active in JFMIP's actions for all of the last 3 years.

Mr. HORN. I thank the gentleman.

Mr. OSE. I want to thank Chairman Horn.

Mr. HORN. Keep going.

Mr. OSE. All right.

Ms. Alderman, Mr. Gotbaum just referenced the communication between the CFOs about the systems being tried in their respective agencies under the JFMIP. In your opinion, has a sufficient sustained commitment been made at the agency level to implement these initiatives? I mean, are we actually making progress here?

Ms. ALDERMAN. The agencies have, part of what they do in terms of disclosing to the commercial sector their plans, they tell us what their plans are for replacements are and we post that up on the knowledgebase. In the next 5 years, 13 out of the 24 CFO agencies plan to replace their core financial systems. Seventeen agencies indicate they plan to replace feeder systems; very significant. We meet——

Mr. GOTBAUM. And some of those that are, "not planning to" are already in the process of doing so.

Ms. ALDERMAN. Some of them are in the implementation—yes. Some of the additional ones have already made procurements in the last year.

These are ones who have not yet made them.

We meet with what we call a "super user group." We invite all the agencies in who are replacing their systems. We go through all the information so that there is full understanding of how we test; plus a discussion of the other needs that they have.

We are developing a road map, what we call an implementation road map, and that is collecting the information and making it easily available to CFO agencies on all the processes and considerations that they need to understand to be successful.

So we are trying, through a supportive effort. By the way, the Federal agencies pay for our existence, for the most part, through a portion of their charge card refunds. So we are a joint investment, if you will, on behalf of the Federal agencies to collect this information and make it readily available to them. So there is a lot of interest and a lot of demand; probably more demand than we can supply given our current resources. But they are truly interested and they want to succeed. But they have terrific challenges: new technology base, new products, new requirements and a staff that probably hasn't been trained up on all these combination of techniques. Thirteen percent of the current installed base is commercial-off-the-shelf. That's not what they have to choose from in the future.

Mr. OSE. In terms of our effort to, frankly, make this a success, are there suggestions you would make about—specific suggestions you would make about improvements we could make?

I would be happy to let you think about that and get back to us.

Mr. Chairman, at this point if you would entertain a question to be responded to later.

Mr. HORN. Without objection, it will be inserted at this point in the record.

[The information referred to follows:]

Questions for the Record from Congressman Doug Ose

What could Congress do to assist Federal Agencies in improving financial management systems?

Answer: Congress could consider several ways to assist Federal agencies to improve financial management systems:

Focus the need for Improvement at the most senior levels. This could be done through the following actions:

- Define and communicate the goal in terms that emphasize the importance of good systems.

Traditionally, administrative systems and back room operations are viewed as overhead cost rather than key tools to support decisions and leverage the tax dollar in delivering services to the public. In contrast, the information from integrated administrative systems for internal management and external reporting is a key factor to successful private sector corporate performance.

- Conduct joint Congressional hearings with Appropriations and Authorization Committees and Department heads to engage legislative and executive branch decision-makers on the issue and communicate urgency.

Such action could give Agency Chief Financial Officers necessary leverage for engaging their colleagues in the solution. Most data necessary to meet the intent of the FFMIA originates in program systems rather than financial systems. Making the most senior Agency official personally accountable provides the management framework necessary to breakdown system stovepipes that are barriers to efficient, integrated information systems for decision making and accountability.

- Help communicate benchmarks and best practices.

Congress and the Executive branch could collaborate to highlight best practices and identify incremental performance benchmarks as a way to educate the community and support action. Currently, the most widely used proxy for financial system performance is achieving a clean opinion on an agency's audited financial statement. But this measure does not necessarily support decisions about the desirable practices in a way that prioritizes system investment. An example best practice might be reducing the number of accounting systems per agency.

Support necessary system investment resources.

- Investment in administrative systems has been difficult to defend particularly when the current cost of process and systems is not readily visible and the business case for investment is not easily communicated. Joint hearings with Congressional Appropriations and Authorization Committees could change the priority of funding. Finally, Congress can recognize the scarcity of personnel capable of managing financial systems initiatives and solicit strategies to improve capacity in the Federal government to be effective.

Set realistic and manageable expectations.

- Congress could communicate expectations that recognize system modernization expense and risk. System modernization efforts must engage some of government's best and brightest to succeed. Overly optimistic expectations on cost and performance can create "false failures" and end careers. A recent study of 8,380 system application implementation efforts showed that only 16 percent of private and public sector projects came in on time and on budget. (The Standish Group, the *CHAOS* Report, 1995).

Ms. ALDERMAN. Will do.

Mr. OSE. Thank you. I want to go back to something that Ms. Alderman hinted at in terms of the security of the systems, in particular as it relates to, for instance, the Web-based systems.

Mr. Steinhoff, on your poster here you have 19 of 20 agencies—excuse me, auditors finding in 19 of 20 agencies some degree of weaknesses in computer security.

Is this particular—I am forgetting why I wrote this question down. Just a minute here.

Is this the most significant problem you have identified—I mean, you talk about five primary reasons agencies are not in compliance. Is this the most significant?

Mr. STEINHOFF. This is the most prevalent problem. It is very important. Beginning in 1997, again in 1999, GAO designated computer security as a high risk area—the recent Melissa and "I love you" viruses, the threat of cyber warfare, the ability to literally go into any system unimpeded; we have been able to actually penetrate major systems in which we could have destroyed all of the data or taken all the data or changed all the data. This is a serious issue. It is going to continue to be serious for a long time. As we move to an ever more interconnected society and a global society, it is a world-class challenge.

In terms of FFMIA and getting to the end game I spoke of earlier, this is a critical issue. The other critical issue is having integrated systems that are actually at the fiber of the management process of an agency.

When agencies will actually be at the end state, actually be there, is when the systems are viewed as being seamless, When they have knowledge management whereby information is provided to the manager on a day-to-day basis and used to manage, and when financial data isn't viewed as something special or outside the purview of the general manager but is viewed as something on your desktop every day.

For example, the government is the lender of last resort in a number of cases. We are filling in holes. In theory, our managers should have better information, and we have to really assure that all the information is protected, and that's where computer security comes in.

Mr. OSE. Is it your suggestion that the challenge lies perhaps not in the integration but the interconnectivity?

Mr. STEINHOFF. That's part of it. It is both integration and interconnectivity. Both of those are very important challenges, and I think that in some cases—I know I am going a little off of your computer security question but it gets to some of your earlier issues. In looking at what we are doing today, there is another very fundamental part of it, and that is reengineering the basic processes.

Mr. Holz spoke about trying to take an off-the-shelf package and use it. In the past, what government has oftentimes done is taken an off-the-shelf package and redesigned it, which hasn't proved to be very effective. These normally die their own deaths over lingering periods of time.

What we have to do is, in many cases, reengineer basic processes.

Your question before about systems architectures, it is very important that the financial system be developed within the confines of that architecture and that agencies, in fact, have one in place. Many agencies don't, and you end up with stovepipes at the end.

So this is really what Clinger-Cohen was getting to, and why it is just very critical that people follow Clinger-Cohen and actually take the extremely cautious, judicious way that Mr. Holz says he is going now, based on experience of going another way before, and assuring that you have gone from A to B before you attempt to go to C.

It is not that the government hasn't spent a lot of money over many years on systems. They have. We should, in theory, be there many times over but we are not, and we have to learn from that experience.

In designing systems, computer security must be built in. Oftentimes a vendor won't sell you computer security, and it is an issue not just in government but in the private sector.

Mr. OSE. Mr. Gotbaum, this kind of begs a question from OMB's standpoint. What is OMB or the administration suggesting to the agencies regarding addressing the security issue?

Mr. GOTBAUM. Actually, Mr. Ose, a string of measures. In the same way that we put out guidance for financial systems that is part of FFMIA, we publish general guidance on computer security. There are a couple of steps. This guidance comes out periodically.

We are in the process of revising it again, not surprisingly, in light of what we have learned over the last several months. But what we say to agencies is, you need to, address computer security at the start when you develop systems. This is consistent with Clinger-Cohen.

Second, when you come forward and ask for money for IT systems, you need to show us how your IT system complies with all of the various requirements: Clinger-Cohen, your security requirements, etc. So what we have done is said to the agencies, in effect, you need to meet the following general test, which is you need to plan your IT systems in advance. You need to use commercial systems as much as possible. You need to make them as modular as possible.

Arnie Holz' point about crawling before you can run is something that——

Mr. OSE. Walk.

Mr. GOTBAUM [continuing]. We are strongly in favor of.

Mr. OSE. Walk.

Mr. GOTBAUM. Yes, walk before you run. And sometimes in the Federal Government we have tried to fly before we could crawl.

Mr. OSE. That's NASA.

Mr. HOLZ. We do good at that, though.

Mr. GOTBAUM. So what we have said in guidance is these are the general rules. You need to, as part of your IT planning, which is part of your budgeting, come forward and tell us that you have done this and tell us how you have done it. So that's the process we followed both for FFMIA compliance and for computer security.

Mr. OSE. So it is an integral part of what the system architecture ends up having?

Mr. GOTBAUM. Yes, right, and our review is part of our general review of their systems proposals and their budget proposals.

Mr. OSE. All right. I have two more questions and then, Mr. Skelly, I want to come back to your challenge with the various programs that you have.

Mr. Gotbaum, the March 1st audit report deadline of this year was not met by a couple agencies and, frankly, it seems to be a rather blatant noncompliance. What are we doing—excuse me. What is OMB doing to ensure that agencies comply with the March 1st reporting deadline for fiscal year 2000?

Mr. GOTBAUM. This year we are doing more of what we have done over the past year. Any agency that was late or had less than a clean opinion, we sat down with them months in advance of the deadline and said what are you doing? We sat down with the agency. We sat down with their auditor, and for those meetings we brought in GAO and Treasury.

So for agencies which were characterized as agencies with challenges, we sit down with them and say, "Walk us through what your plans are, walk us through how you intend to deal with them, etc." So beginning last fall, we had a series of meetings with all of the agencies that had had difficulties in the year before.

We are doing that again except we are starting it earlier.

In addition, as we get closer to the deadline when we hear from agencies that they are either slipping or having difficulties or both. The audit process is not automated. That's part of the reason why we think FFMIA is so important, because most agency audits now are not automated. They are done by a combination of automated systems and a lot of hand labor. This is what Jeff Steinhoff was talking about.

As a result, because this is something that agencies have only been doing for a couple of years, this is something which the agencies and their auditors are still learning. Therefore, in more than a few cases, in fact in at least half a dozen cases, some time in the month of February or March, we would get a phone call from an agency saying "We just discovered a problem," and they were not dissembling. They were not hiding something that they had known about for months. As they had gone through reconciliations, they discovered their accounts couldn't reconcile. So what we do at that point is we sit down, we work with them, we work with GAO, we work with their auditors and we try to resolve each of those issues.

I think it is important, as we recognize what we haven't done, to also recognize what we have. For fiscal year 1998, we had, I think, 15 timely audits. This year, for fiscal year 1999, we had 19. We would have had 20 except DOT was so interested in making sure that GAO agreed with it that they held off a couple of days to convince GAO. So I would say this year we had 20. And I am hopeful that next year we can, in fact, get everyone.

Mr. OSE. The other question I have, Mr. Chairman, if I could take a little liberty here, is I want to come back to the Department of Education and the reason I want to come back to the Department of Education is that it handles so many critically important aspects of, frankly, training the next generation, if you will.

I want to visit with Mr. Skelly about the specific challenges. I know you have a huge number of programs. You have the student loans, the guarantees. You have this, that and the other thing.

Are there specific things you can share with us as to how we can help DOE, frankly, deal with this problem?

I mean, we have to have a clean opinion. We have to close these books and they have to reconcile. How do we help—I mean, what can we provide DOE to get to that end game?

Mr. SKELLY. It is a difficult task to manage all of these activities and to do it well. It is important that we get our administrative funds that we need to implement some of these changes so that we can devote resources to our systems enhancements, but—and training of staff, recruitment of staff, retention of staff, who can do a good job on them, who can learn about the programs, learn about the systems requirements, the changing audit standards, keep up-to-date on all of those things and do a good job.

I think that's the most important thing that Congress can do in supporting us, as OMB has, in requesting sufficient funds to administer the activities.

I don't think you can just eliminate some of the requirements for separate programs. I think the education programs we have for the most part address clear national priorities. They are important investments in school children and in college students and in people with disabilities and others who benefit from the programs.

I wouldn't want to suggest that the easiest way to comply with all the accounting rules and standards is to eliminate those programs.

They each—each of the 175 programs serves a different purpose.

Mr. OSE. Before we leave that, are any of the 175, in terms of their specific function, able to close their books?

Mr. SKELLY. We could probably do that. We have the greatest difficulty. At least in the 1999 audit, Ernst & Young, our independent auditors, had the most problem, and I think GAO would echo this, with what we call our guaranteed student loan program, our Federal family education loan program. It is the program that has the most significant accounting issues because under another piece of legislation called the Credit Reform Act we have to account for that program based on each year's cohort of loans, each year's loans that we set up.

The act only passed in 1990 and it was in effect for fiscal year 1992. So we have two separate sets of rules for how we account for guaranteed student loans, for those loans made prior to 1992 and for those loans made after 1992. We have to account for each year after 1992 separately.

We get to lump all the pre-1992 money together. But one of our most significant issues in the audit this year was how we dealt with the pre-1992 student loans in our 1999 audit, a full 7 years later; but loans were made prior to 1992. Students are still repaying those loans, in most cases, because if they go to school for 3 to 5 years and then they are earning payment for even 10 to 25 years, we are tracking these loans for a long time.

There are problems. There have been problems in the past with defaults on those loans and we have to account for that separately. We have greatly reduced the default rate from over 22 percent down to 8 percent in the first 2 years' repayment. That has significantly eased the problems in how we do accounting.

We still have to track the inflow of funds from default repayments and make sure we put them into the right account. Are these repayments part of the pre-1992 loans or are these repayments part of the post-1992 loans? If they are post-1992 are they 1992, 1993, 1994, 1995? Which year do we put them?

What we call splitting that data up is what has been one of our difficult issues. It is one of our most difficult audit challenges for fiscal year 2000 also.

Mr. OSE. So on the student loan program—I have to question the uniqueness of the challenge that you are defining because I frankly happen to think there is a substantial body of expertise that has faced up to this issue of loans issued at varying dates and their degree to which they repay.

Now the thing that has ensued since 1992 may be a little different but the fact of the challenge in repayment or the default rate or what have you, I don't think that's particularly unique.

That's the student loan program. Are there other programs within DOE that you are able to frankly close? Not close in the sense of eliminate but close the books in terms of a given year.

Mr. SKELLY. We have two student loan programs. The guaranteed student loan program makes approximately $20 billion in loans each year. We have another program called the direct student loan program that makes only $10 billion in loans each year. It is still a very large program.

In the direct student loan program, we have had a clean audit opinion. It is a program again run by the Federal Government. We make the loans. We use private sector contractors to make and service all of those loans, but we are more in control of the data because we are the big, large bank.

In the guaranteed student loan program, we use intermediaries or third parties to help us. Guarantee agencies and lenders send us information, and some of our most significant problems have been in the data that we get from guarantee agencies, the information we get from lenders. Because it is a more complicated program, with more actors involved, it is more difficult to get all the data that we need and, thus, more difficult to do the accounting.

But the direct student loan program, we do a good job. Again, we have more control over it but we have done very well there.

Mr. OSE. Mr. Chairman, you have been very, very generous with time this morning. I do have one question. I want to ask Mr. Gotbaum and the others whether there is any legislative action that we can take to further refine or modify the requirements at FFMIA, but knowing you as I do I am confident you have questions. I apologize for monopolizing the time.

Mr. HORN. I just have one or two. You are doing great. I am training him. Since the Republican Party, and I was part of it, said chairs can only serve 6 years, I want you next.

OK. Let me ask you on this, Mr. Skelly, has the Secretary ever asked the authorizing committees or the Appropriations Committees or has this come under the Banking Committee, and is there a way simply to work it out and simplify it?

Have you ever asked OMB for the language?

Mr. SKELLY. There is a long history where the administration requested in 1993 to go to a direct student loan program for all the loans that we make. That was rejected by Congress.

Mr. HORN. Well, I remember voting for the direct student loan. I was for that as a university president and I was also for it as a Member of Congress.

Mr. SKELLY. Many university presidents and many Members of Congress do support the direct student loan program. It has been a very, we think, big success. It has saved a lot of money over time. More importantly, it has improved services to schools and to students, both the ones who get the direct student loans but also the ones who have received guaranteed student loans because the competition of the direct student loan program has spurred the guaranteed student loan program into all kinds of innovations; things we did where we made our services Web enabled so that students could get access to their records. They could file their application form over the Web. We have greatly simplified a lot of the loan requirements. So it is—and speeded up the process of their getting a loan.

So, again, there was a proposal not based on accounting concerns but just based on the idea of what was the best way to serve the public and provide loans to students who need them back in 1993, but there has been no real proposal since then to do that. We think both programs work well simultaneously. There is room for both.

Again, it is a huge, huge industry. A lot of college students and their families need help in attending college and helping to pay for it. So we wouldn't try to get rid of the other program. It is complicated. There are always people suggesting ways to make it simpler, and that the banks and guarantee agencies that participate in the program have also helped do that. It is not all the government doing it. Both sides have helped to make the programs better.

Mr. HORN. My point was, if it is a real burden to the Department of Education, you ought to just get some things amended up here. If it isn't, why struggle with it?

Mr. SKELLY. I think we are going to struggle with it, but it is kind of the thing where the driver here of how we do things is not just the accounting. We are not doing accounting for accounting's sake. We are delivering these services. We are performing functions that are necessary in the national interest. We want to do those the best we can and we hope to get all of the accounting requirements fulfilled at the same time.

Mr. HORN. I have one last question that will involve OMB, GAO and anyone else who wants to get into it. I remember very well when Commissioner Rossotti came by and said, "I have this great training program and people are stealing my people." So I was curious on the incentives to get the team to move from IRS where they have had great improvement on fiscal matters over to Agriculture, I am curious can they negotiate the schedule for, say, senior civil servants or just the regular civil servant grade? How does one swipe a lot of people from others that are good?

Mr. GOTBAUM. I am not sure that I should answer this question on the record in any case, but——

Mr. HORN. I am looking at you.

Mr. GOTBAUM. I am not sure how Sally did it. I am happy to ask Agriculture to do a write-up on it, because this is something of which they are very proud and which is important, because it is a case in which a Federal agency recognized that there was expertise outside the Federal agency. They needed to get this experience and went out and got it. With your permission, Mr. Chairman, let me put that in the list of things that I need to respond in writing to.

[The information referred to follows:]

QUESTION FOR THE RECORD FROM CONGRESSMAN STEVE HORN

Question: How was USDA able to transfer IRS personnel to install the financial system at USDA?

Answer: In April 1999, USDA was interested in modernizing its financial management system and expressed interest in acquiring a project management team from the Internal Revenue Service (IRS) with the needed skill set to successfully install their new system.

To bring the team over quickly, Ms. Thompson first needed to secure the permission of the Office of Personnel Management (OPM) to hire the IRS project management team without first having to consider hiring laid-off federal employees to handle the job. Recruiting the support of Agriculture Secretary Dan Glickamn, the USDA successfully petitioned OPM for a waiver allowing the move. In her June 1998 waiver, Janice Lachance, OPM Director, acknowledged the Department of Agriculture's "emergency situation that threatens the successful completion of the USDA's mandate under the Chief Financial Officers Act of 1990 to implement an integrated financial management information system." Ms. Lachance said the waiver did not break the intent of personnel regulations requiring job competitions. "Current or former federal employees who would otherwise apply and be considered for these positions would be unlikely to meet the highly specialized qualification requirements," Ms. Lachance wrote in the waiver.

The team that was hired included a Project Manager and three staff members.

Mr. HORN. It is an interesting route to go. I think of it in the hospital analogy, where the heart specialist at one of the very distinguished hospitals in America, that happens to be in Long Beach, arrived in town and just took the whole group. I asked the other night, when I was sitting with a lot of doctors, I said, "is that group still at this other hospital?" And they said "yup, they still are." If you offer people a chance to do good things, maybe that is all it takes. So I was curious about that, because I remembered that.

Mr. Rossetti, as you know, has done rather well in getting the books balanced over there.

Mr. GOTBAUM. Although he has a few more things to do.

Mr. HORN. That is true. I said it would take him 10 years, and I would hope he would be here under five Presidents to get the job done.

Well, any other comments?

Mr. OSE. I do have one other, Mr. Chairman, if I may. This legislation, FFMIA was passed 4 years ago, and I want to ask Mr. Gotbaum, and then have the others, to the extent they have any comments, chime in whether there is any legislative action that this subcommittee or the Congress could take to either further refine or modify the requirements of the act, the purpose being to improve it further?

Mr. GOTBAUM. Mr. Ose, I am stating a view that I have not vetted through the CFO council.

Mr. OSE. You are way out there, man.

Mr. GOTBAUM. This is, in our view, very good, quite general legislation. What FFMIA says is, basically you need to get your systems, so they meet systems standards, they meet accounting standards and they use the standard general ledger. It is not, in my view, an overly prescriptive piece of legislation.

So I, frankly, think the major task is for us to implement it. I would say, and as I mentioned in my testimony, that the 3-year time horizon is one, in most instances, that we think is optimistic. But the law then provides, that if you are going to go beyond 3 years, you need to talk with the Director of OMB, and you need to explain why it is OK to go beyond 3 years, and you need to have your auditor comment on the remediation report.

To be quite honest, I think this is a case of a law which is a very sensible law, which is hard to implement, and we need to go about the task of implementing it. As I mentioned, and I believe this very sincerely, I think the attention of the Congress on how agencies improve their financial management matters a great deal. In the same way that you keep track of GPRA implementation and the way you keep track of whether we do or do not have clean opinions, I would argue it would be useful to keep on keeping track of this.

It might also be useful to, at some point, for some agencies, hold some kind of joint hearing and review with the authorizers and the appropriators how individual agencies are doing. One of the issues the agencies raise to us that we work on actually quite hard is making choices among priorities. Because we are in a balanced budget world, we have to make choices, and you have to make choices.

So it is helpful to agencies if appropriators and their authorizers know that it is not just the agency that cares about modernizing its financial system, but that you and your committee do as well.

Mr. HORN. That is well said. Does the gentleman from California have any other questions?

Mr. OSE. I suspect others might have some perspective here.

Mr. STEINHOFF. I agree there is no need to change the law now, but we have to take the law that is there and really take it to the next level. If you look at the successes in Y2K, there were several very important components to that. One was the tone at the top. It would be very important that you would have not just chief financial officers, as Mr. Holz has come today and Mr. Skelly, to talk about the importance of this, because they are convinced this is important. But it is important that the department head be asked these questions.

We saw in Y2K that entities like DOD turned around when the responsibility got to the higher levels. When the Deputy Secretary, John Hamre took control, it went from a program in peril to one that was completely changed and reformed and got them to the end zone. So you have to have that proper tone at the top. Our work with world-class corporate and finance State organizations, found that that tone at the top was there. The chief executive officer was engaged in these issues and looked at it as providing value to the business, looked at it as being an investment. It has to be viewed that way.

FFMIA has an annual reporting mechanism. Administratively, that reporting mechanism can be expanded upon to have, let's say, quarterly reporting, back to milestones. I would not want this to turn into a process-driven endeavor. I want to make that real clear. It should not be viewed as process-driven or "gotcha," but there should be basic accountability. Many people go in very optimistically when they are designing systems, but it doesn't always quite work out the same way.

The chairman mentioned IRS. I am not saying that you would have to do something of this grand scale every time, but IRS had a very major and very expensive systems disaster, $3.4 to $4 billion, and reforming its system is really at the lifeblood of carrying out its mission.

Basically, today, every time the IRS asks for money out of its special fund for tax systems modernization, it must present a plan. GAO must look at that plan and say whether IRS is in a position to effectively spend that money. If we find a systems architecture is not there, or the proper planning has not yet been completed, we will say funding should be conditional on X, Y and Z. The Congress has limited funding in some cases. This has all been done very collaboratively with the IRS in a constructive way. They don't want to move ahead when they are not in a position to move ahead.

So I think there can be a lot more rigor placed on systems development. I think it would be very much worthwhile for the Congress to know whether or not agencies are in a position to properly carry out Clinger-Cohen. There are measures of this. The Software Engineering Institute has a variety of tools that can be used to determine whether an agency is in a position to design software or to manage a contractor that is designing software. All too often agencies get into these major projects that go on for years and years and years, and then finally someone plugs in the cord of the system in and it explodes. Agencies have to make sure this money is well spent. Following the disciplined rigors of Clinger-Cohen is very important here.

Finally, a very important component of the success we saw in Y2K was the independent validation and verification and the fact that things were tested on an end-to-end basis to see did they really work end to end and to break down some of the stove pipes. The IGs played a very important role in Y2K, I can see them playing a very important role in addressing the financial systems issue, which really gets to the heart of the challenge and the CFO Act and FFMIA. Without this, the government is not going to move toward a performance-based government because it will not have the data. It is that important.

Those are my pearls of wisdom for today. It has been a pleasure to be here.

Mr. HORN. Anybody else have a word on this?

Mr. SKELLY. You asked would we like any changes. I have not vetted this one through Josh or the CFO council either, but one additional month, instead of having to do these things by March 1, would really help us. We, in the Department of Education, did meet the March 1 deadline this year. We are glad we did, but we paid a pretty big price for it. The reason we have a difficulty is the loan programs we have to work with require us to go back and use economic assumptions that are part of the President's budget to discount those loans. The same people who are doing the work on the budget, which has to come out the first week in February, also have to do a lot of work to help produce the statements and work with the auditors. Another month would certainly have helped us a lot, and it sounds like it would have helped a couple of the other agencies.

Mr. OSE. Mr. Skelly, I don't want to deflate your balloon, but I would suggest that we go a different direction. We are not going to relax the standards. You will have to vet that there, but that is not going to be very receptive. It is not going to be received well on this side, to relax the standards.

Mr. SKELLY. It is worth a shot.

Mr. HORN. That is right. We opened it up. You are right to move in.

Any comments, Mr. Holz?

Mr. HOLZ. I would like to add to the comments that came from the other end of the table about the support of the heads of the agencies. I can assure you, I have never run into a guy that is more aggressive about excellence in financial management than one Daniel S. Golden, and his support made him an absolute champion of this process. He wants audited financial statements, he wants clean opinions, he has some corporate experience, so he knows about that.

The whole accountability reporting process that we do, he owns it. There is no doubt about it. It just makes my job that much easier, because my chores and challenges and direction are very, very clear. When you have that kind of support and understanding of the products from the top down, it is an extremely beneficial tool to have and it works very well for us in the area of statements and systems and standards.

Mr. HORN. Well, I agree with you. He has the highest regard up here on the Hill, more probably than any other Cabinet officer.

Mr. HOLZ. I appreciate that.

Mr. HORN. He is not only a visionary, but he is a practical visionary, and we see it almost every day. He has had to suffer more cuts than anybody else, and he took it smiling and did something about it.

Mr. HOLZ. I was a little interested in Mr. Ose's comments when he was talking about closing the books and being in business, how to do that. Having been in business for many years as an auditor, I have provided those kinds of services to people, and it is very difficult sometimes. I think we have all talked about that here today. We just need to keep pressing forward and get it down.

Mr. OSE. I would say I pulled my hair out doing it, but I don't want to——

Mr. HOLZ. I won't take it personally.

Mr. HORN. We thank you all for coming. I now want to thank the staff. Russell George is right behind me, the staff director and chief counsel for the subcommittee, and then Louise DiBenedetto is right to my left and your right, and sadly for us, this is her last hearing. She is on the nice detailee program of the General Accounting Office as a professional staff member, and she will be going back there, but only after we unlock the door and get all these documents that we have suggested some of you file today and do a report. Then we will release her for GAO. But she has a superb operation and is excellent. So we thank you, Louise, for all you have done to be helpful here.

So we think that is good for people, even in our legislative branch, which GAO is, and we certainly would welcome people from the executive branch to spend some time on the Hill. You think they would go back with a different perspective. I can think of a lot of cases where people went from here to there and there to here, and it worked out, and some it never worked out.

I will never forget one, he is inscribed in my brain forever. He was up here as a very fine legislative assistant on the Senate side, went down to your shop, my friend, and known as then BOB, and he started saying, you know, what are those idiots on the Hill doing? That was not exactly the right way to move in to the executive branch. I thought, boy, good-bye.

Mr. GOTBAUM. Thank God that was a previous administration.

Mr. HORN. You are right, it was. We also want to thank Bonnie Heald, our director of communications. I saw her here. There she is. Bryan Sisk is our clerk on the administrative matters, and then Elizabeth Seong is an intern. Where is she? She is probably waiting for me to take her to lunch. Michael Soon, the same condition, an intern, and Will Ackerly, intern. Will, where are you? Put your hand up. Thank you. And then the minority staff, Trey Henderson, counsel, and Jean Gosa, the minority clerk here. And then, of course, our faithful reporters, Bob Cochran and Mindi Colchico.

So, with that, we thank you all, and we are adjourned.

[Whereupon, at 12:12 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

QUESTION FOR THE RECORD FROM CONGRESSMAN DOUG OSE

Question: How was USDA able to transfer IRS personnel to install the financial system at USDA?

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To bring the team over quickly, Ms. Thompson first needed to secure the permission of the Office of Personnel Management (OPM) to hire the IRS project management team without first having to consider hiring laid-off federal employees to handle the job. Recruiting the support of Agriculture Secretary Dan Glickman, the USDA successfully petitioned OPM for a waiver allowing the move. In her June 1998 waiver, Janice Lachance, OPM Director, acknowledged the Department of Agriculture's "emergency situation that threatens the successful completion of the USDA's mandate under the Chief Financial Officers Act of 1990 to implement an integrated financial management information system." Ms. Lachance said the waiver did not break the intent of personnel regulations requiring job competitions. "Current or former federal employees who would otherwise apply and be considered for these positions would be unlikely to meet the highly specialized qualification requirements," Ms. Lachance wrote in the waiver.

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